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PARIS ECONOMIC SUMMIT AND THE INTERNATIONAL ENVIRONMENTAL AGENDA

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, TRADE, OCEANS AND ENVIRONMENT

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THURSDAY, AUGUST 3, 1989

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, TRADE, OCEANS AND ENVIRONMENT OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met at 9:15 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Paul S. Sarbanes presiding.

Present: Senators Sarbanes and Boschwitz.

Senator SARBANES. The subcommittee will come to order.

Today the Subcommittee on International Economic Policy, Trade, Oceans and the Environment resumes its review of the Paris Economic Summit.

On July 20, administration representatives from Treasury and State offered their assessments of the agreements reached by the participants in the July summit. We discussed at some length the international economic topics which were the subject of the meetings, including G-7 exchange rate policy, or perhaps more accurately lack thereof, and prospects for implementation of the Brady plan, particularly with respect to Mexico.

At today's hearings, the subcommittee will continue its summit review, including a particular focus later in the morning on the environmental aspects of the summit. We will have the head of the EPA here with us. Concerns about the environment are now high on the international agenda. Inclusion of it as a topic for discussion at the summit set it apart from the 14 earlier summits, and it was a focal point of the final summit communique. In fact, EPA's participation at the summit reflects a rather profound shift in our plans about thinking. We had really only five officials there: the Secretary of State, Treasury, White House Chief of Staff, National Security Adviser, and the Administrator of the Environmental Protection Agency.

This morning, though, we turn first to two distinguished witnesses who we were to hear from on the July 20, and unfortunately, because of an objection to the committee meeting, we were not able to do so and so we have scheduled them first this morning. We have two very distinguished witnesses: Fred Bergsten, director of the Institute for International Economics, and Gus Speth, the president of the World Resources Institute.

Gentlemen, we are ready to proceed. We would be happy to hear from you. We are very pleased to have you with us today. Fred, why don't we start with you, and then we will go to Gus.

STATEMENT OF C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Mr. BERGSTEN. Thank you very much, Mr. Chairman. I have given you a short statement in which I tried to offer an evaluation of the Paris summit.

I start by saying orally that the summit clearly did some good things. On the environment, which you will be discussing later and I will not dwell on, I think the summiteers made a major step forward by increasing public consciousness around the world of the nature and severity of the problem. They linked the economic cost to the environmental effects. I think that is all to the good and an important step forward.

I think in some areas that did not get too much attention the summit also made some progress. They set up new groups to try to deal with the problems of drug money and insider trading, recognizing in these two additional areas the global nature of problems that we face, the need for new international efforts to deal with them, adding further to the list of areas where our governments are being drawn sometimes against their wills into international efforts to deal with critical problems. I think that tendency will continue. It will extend into more areas, and it is part of the ball game for the decades ahead.

They also used the existence of the summit to put some pressure on the parties trying to negotiate the Mexican debt package. They did not make any concrete progress on it there, but within a week or so after the summit, the deal was reached. And so, I would give them at least some modest credit for that.

Having said that, Mr. Chairman, I think in order to give an overall judgment on whether a summit or any session like this is successful, you have to set out some criteria against which to judge progress. And I would set two standards against which to judge this summit or, in fact, most summits recently passed and in the future.

The long-term objective I would set out is whether the summits help manage what I think is now an historic transformation from a U.S.-dominated, dollar-centered world economy of the first postwar generation over toward a multipolar, global economic system that I think will probably emerge in the early part of the next century.

Now, it may take another decade or so to construct a stable system of management by committee based on some rough equilibrium among what I think are developing to be three roughly equal economic powers around the world: a newly competitive America—I say newly competitive. I hope and believe that will happen over the next 5 to 10 years—a newly internationalized Japan—I also hope and think we have to push hard in that direction—and a truly united states of Europe which I think the Europeans are moving toward.

It will be tough to achieve such management by committee. We have never had that historically, but I do not see any alternative as it is clear that the United States can no longer manage the

global economy alone and no other single power can succeed it in that role.

Now, in the meanwhile, before we get to some system like that 10 years or so out, I think that the United States, in addition to making every effort to improve our competitiveness at home, will have to work closely with these other key economic powers on an issue-by-issue basis to resolve problems and to pave the way for more comprehensive management structures at a later date. I would view the annual summits as the nascent steering committee of the future tripartite world economic system and, thus, as an essential, even central element in moving that direction.

Now, on that count, using that as a standard against which to judge Paris, I do not see any evidence that they explicitly talked about that evolutionary need or where the world economy is going. On the other hand, they took some steps that I think move in the right direction.

They clearly assigned the European Commission in Brussels a lead role in dealing with and hopefully financing the evolution and economic reforms in Eastern Europe. I think that is a good step.

The Japanese have now come forward with something like $10 billion in support of the Brady plan on Third World debt. That is pushing burdensharing in the direction of more payment by Japan, presumably more responsibility by Japan too. I think that is a step in the right direction.

So, I would give the summit some progress, though it did not talk about the issues explicitly as far as we know, for moving in the direction of more pluralistic management and responsibility for a stable world economy.

The second goal I would have set out for Paris, however, is one on which I think they flopped almost totally, and that was what I regard as the need to deal with the central problems of the world economy by taking new initiatives to correct the huge international imbalances which remain and are probably going to get worse between deficit America, surplus Japan, Germany, and a few others.

It is now pretty clear, Mr. Chairman, that the reduction in our external deficit and in the counterpart foreign surpluses has leveled off. It has stopped improving and it has done so at unacceptably high levels, at about $120 billion for the United States. That means that we as a country have to continue attracting at least $10 billion of net capital inflow per month for the indefinite future to keep our own economy afloat. That will steadily increase our net debtor position which already exceeded half a trillion dollars by the end of last year.

Your Joint Economic Committee, Mr. Chairman, put out an important report on that subject a little over a year ago calling for the United States to return to surplus in its external accounts to start reducing our net foreign debt. Far from seeing any signs of that, we are, in fact, moving in the other direction.

All projections show that the imbalances will start to rise again next year. The IMF has recently forecast the U.S. deficit will climb to $150 billion in 1990. If anything like that is true and continues to deteriorate in the following years, this could have three very adverse effects on our own economy.

First, what I would call an import-led recession with the renewed trade deterioration pushing an already soft economy into negative terrain. Most of the projections for our economic future over the rest of this year and 1990, as you know, show a very soft economy, growth in the 1- to 1.5- percent range. But most of those forecasts, erroneously I think, call for the trade balance to stay about constant or even get a little better. Those of us who focus on the external side are pretty unanimous in looking for renewed deterioration of the trade balance, indeed, perhaps sizable deterioration of the trade balance. That coming on top of a soft domestic economy could push the economy into recession and make the economic outlook much worse than we now foresee.

Second, if that happens, the deterioration in trade, and particularly if the economy goes into recession, we will at some point face some considerable financial disruption because at some point the dollar will inevitably fall sharply pushing up inflation rates, pushing up interest rates, and threatening the stability of our already fragile financial system here.

Third, a renewed increase in the trade deficit I think is almost certain to generate resurgent protectionist pressure here in the Congress, the business community and elsewhere as well because I am afraid that the political message of such a development would be that Jim Baker's plaza strategy had failed.

What the G–5 and Secretary Baker did at the Plaza and since was try to use macroeconomic policy cooperation and exchange rate changes to deal with the trade problem. If the trade problem, however, remains and starts getting worse, the political message I fear will be that that strategy failed. That would be an erroneous analytical judgment. It would have failed because of failure to follow it through like with the budget here and with enough exchange rate movement, but I am afraid the political message would be we gave you guys 5 years. Your approach failed. We have to do something else, and the something else would be manage trade or protectionist devices.

Therefore, I think the United States should have sought to use this last summit and other events in the last few months to launch what I would call a second plaza agreement. The leaders should have clearly indicated that they viewed the present imbalances as unacceptable, that they give high priority to reducing them considerably further, and that they had directed their financial officials to promptly work out a series of additional measures to do so. That is not pie in the sky to suggest that such packages could be done. The G–5 did one at the plaza at 1985. The Bonn summit did one at the summit level in 1978. I think this was the time to do it, but they did not.

So, judged against that immediate goal, the Paris summit did fail. The communique recognized that the momentum of adjustment has recently weakened, but included only the usual ritual incantations about the imbalances. No new actions were adopted. Apparently none were even discussed. And so, I would submit that the summit, though having done some useful things, essentially ignored the central economic problem facing the world economy and therefore was not by any measure a success of the type we would like to see.

My final comment, Mr. Chairman, is to generalize on that point by suggesting that the summiteers at Paris made a mistake by canceling their final dinner meeting. Such a session could have been used to address the trade imbalances, to explicitly discuss the systemic transformation of the world economy. They did not complete their agenda. They quit early. They should have had the dinner and used it to talk about some of these serious matters.

Indeed, Mr. Chairman, I feel that the summits have fallen into some disrepair here in the 1980's partly because some of the governments involved really have not wanted to use them to pursue serious international economic cooperation and partly because of some of the individuals involved, partly because of the internal dynamics of the process itself where blanket media coverage provides massive incentives to be safe and successful rather than to address tough issues that could expose deepseated national differences.

Not it is clearly desirable for the heads of government to meet annually if only to get to know each other better and focus occasionally on each other's concerns. It is clearly desirable that they talk about political as well as economic topics. I am not suggesting that they should stick only to economics. But I think the leaders are forgoing a major opportunity if they continue to avoid using the summits to discuss the tough economic issues which are so critical to their countries. Indeed, I studiously avoid referring to Paris as an economic summit because they did not really use it for those purposes.

I think that only heads of government can frequently make the difficult political choices that are necessary for economic progress and only they can link together the different issue areas, trade, money energy, the environment and the like, to forge mutually acceptable international deals. President Ford did so in the early 1970's. President Carter did so in the latter 1970's, and I urge the committee to urge the administration to return to that mode for the summits of the 1990's, particularly since the first one will be hosted in this country a year from now.

Thank you very much.

[The prepared statement of Mr. Bergsten follows:]

STATEMENT OF C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

BENCHMARKS FOR JUDGMENT

One can only judge the success or failure of a summit meeting, on any like international event, against criteria for what it *should* have accomplished. I believe that the United States should and could have used the Paris summit to pursue two basic goals, one-long term and the other more immediate.

The *long-term goal* is managing the historic transformation from the U.S.-dominated, dollar-centered world of the first postwar generation to the multipolar global economy that will probably emerge in the early twenty-first century. It may take another decade or so to construct a stable system of "management by committee" based on a new equilibrium among three roughly equal economic powers: a newly competitive America, a newly internationalized Japan and a truly United States of Europe. There is no alternative to such tripartite management, however, as it is clear that the United States cannot manage the system alone and that no other single power can succeed it in that role.

In the meanwhile, the United States—in addition to making a major effort to improve its own competitiveness through a wide range of macro- and microeconomic steps—will have to work closely with the other key economic powers on an issue-by-

issue basis to resolve problems and to pave the way for more comprehensive management structures at a late date.[1] The annual summits should be viewed as the nascent steering committee of the future world order and thus as an essential, even central, element in implementing this strategy.

The *immediate goal* for Paris should have been a new initiative to correct the huge international imbalances which remain between deficit America and surplus Japan and Germany (and a few others). It is now clear that the reduction in our current account deficit and in the counterpart foreign surpluses has leveled off at unacceptably high levels—at about $120 billion for the United States. This means that we must continue to attract at least $10 billion of net capital inflow to the United States monthly for the indefinite future, steadily increasing our net debtor position which had already exceeded half a trillion dollars by the end of 1988.[2]

Worse yet, virtually all projections show that the imbalances will start to rise again in 1990. The International Monetary Fund has recently forecast that the U.S. deficit will climb to $150 billion next year.[3] This could have three very adverse effects on the United States:

—an *import-led recession,* with the renewed trade deterioration pushing an already soft economy into negative terrain;

—considerable *financial disruption,* as the inevitable dollar tailspin pushes up inflation and interest rates and threatens the stability of a fragile financial system that is already under considerable pressure due to the S&L crisis, LBO's and Third World debt; and

—*resurgent protectionism,* as the Plaza strategy of dealing with the trade problem through macroeconomic policy and currency changes is (erroneously) discredited.

The United States should thus have sought to use the summit to launch a "second Plaza agreement." The leaders should have clearly indicated that they viewed the present imbalances as unacceptable, that they gave high priority to reducing them considerably further, and that they had directed their financial officials to promptly work out a series of additional measures to do so. Such packages have of course been worked out before, most recently by the G–7 at the Plaza in September 1985 but also at the Bonn summit in 1978.[4]

THE RESULTS

Judged against this immediate goal, the Paris summit failed miserably. The communique recognized that the "momentum of adjustment has recently weakened markedly" (para. 5) but included only the usual incantations about the imbalances. No new actions were adopted, and apparently none were even discussed. Indeed, there is no evidence to support the claim in the communique that "there has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring international consistency of domestic policies and their international compatibility" (para. 10).

The summit essentially ignored the central economic problem facing the world economy. Indeed, it failed to take concrete action on any of the key international economic issues: the "Japan problem," Third World debt,[5] trade policy including the Uruguay Round negotiations in the GATT. I have therefore studiously avoided referring to Paris as an "economic" summit.

In terms of helping to manage the transition to a multipolar world economy, the longer terms issue outlined above, the results at Paris were more positive. The United States explicitly recognized that it could not contribute must financial support for the needed economic reforms in East Europe and Third World debtor coun-

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[1] The details of this proposed strategy of "competitive interdependence" are developed in my *America in the World Economy: A strategy for the 1990's,* Washington: Institute for International Economics, November 1988.

[2] This issue will be analyzed in depth in C. Fred Bergsten and Shafiqul Islam, *The United States As a Debtor Nation,* Washington: Institute for International Economics, forthcoming 1989.

[3] International Monetary Fund, *World Economic Outlook,* April 1989. Our own projections suggest less rapid deterioration but, on the basis of current policies and exchange rates, a steady renewed rise in the deficit after the turn of the year. See William R. Cline, *United States External Adjustment and the World Economy,* Washington: Institute for International Economics, 1989.

[4] Details of my analysis and policy proposals on this issue can be found in my pre-summit testimony before the Joint Economic Committee on July 6, 1989 (copy attached). Similar views were expressed by Martin Feldstein in an article in the *Financial Times* on July 5, 1989.

[5] For an early appraisal of the subsequently negotiated Mexico deal, see "Mexican Debt: A Good Agreement" by my colleague William R. Cline (attached).

tries, so reached out for an internationally cooperative approach—largely to Western Europe on the former, largely to Japan for the latter.

Such case-by-case multilateralization of global economic responsibility is essential, and Paris thus represents a stop in its evolution. Explicit discussion of the systemic problem and how to address it would have been much better, but some progress was made.

Finally, the summiteers should be applauded for their efforts in several other areas. They took no actions on the environment, but helped to raise global consciousness of the need to deal with that critical issue and underlined its potentially huge economic effects. The new mechanisms they launched to help cope with drug money and insider trading represent further recognition of the globalization of many of our economic problems, and the need to create new international regimes at the microeconomic level to deal with them.

CONCLUSION

The summiteers at Paris made a major mistake by canceling their final dinner meeting. Such a session could have addressed the trade imbalances and explicitly discussed the systemic transformation of the world economy, both of which require far ranging policy responses. The meeting did not complete its agenda, and it is unfortunate that it wasted the opportunity to do so.

Indeed, the summits have fallen into disrepair in the 1980's. This is partly because some of the key governments involved, including our own, have not believed in serious international economic cooperation. It is partly because some of the individuals have not been up to serious discussion of these issues, and have thus been drawn to focusing on more political and symbolic topics. It is partly because of the internal dynamics of the process itself, with blanket media coverage providing massive incentives to be "safe and successful" rather than addressing tougher issues that could expose deep seated national differences.

It is clearly desirable for these heads of government to meet annually, if only to know each other better and focus occasionally on each others concerns. It is clearly desirable that they discuss political as well as economic topics.

But the leaders are foregoing a major opportunity if they continue to avoid using the summits to discuss the tough economic issues which are so critical to their countries. Only heads of government can make the difficult political choices that are often necessary for economic progress. Only they can link disparate issue areas together to forge mutually acceptable international deals. Both President Ford and President Carter used the summits of the 1970's to these ends, and I urge the Committee to urge the administration to return to this mode for the summits of the 1990's.

Senator SARBANES. Thank you very much. It is a very helpful statement. The full statement will, of course, be included in the record.

Mr. Speth, why don't we hear from you, and then we will direct questions to the panel.

STATEMENT OF GUS SPETH, PRESIDENT, WORLD RESOURCES INSTITUTE, WASHINGTON, DC

Mr. SPETH. Mr. Chairman, thank you for this opportunity to testify on the environmental aspects of the G–7 summit meeting.

As the chairman mentioned in his opening comments, this was the first time that environmental issues, the global environmental issues, have surfaced in any depth at the summit meeting. And in my view, Mr. Chairman, the G–7 leaders overall acquitted themselves well. They articulated an appropriate sense of urgency. They identified the right problems, though I think they left out one of the most important, the global population problem. And they pointed to the right solutions, although they did so in very general terms.

They made a series of very important commitments either implicitly or explicitly promising action. So, the key now is whether

these pledges will be honored in the year ahead before the summit reconvenes here in the United States and whether the promises that were held out for action will be forthcoming in unilateral and multilateral initiatives.

President Bush in particular in Paris called for urgent action to preserve the Earth. And I hope that this signals what it seems to signal, a commitment by the President to develop an administration plan of action to address global environmental challenges, something that we do not now have.

I think it was extremely important for these global environmental issues to finally reach the summit. Now that they have, Mr. Chairman, I expect that they will stay there. The truth is that the global environment is in deep trouble. The G–7 leaders are correct in their assessment that "decisive action is urgently needed" on ozone depletion, on global warming, on forests and biodiversity loss, on marine pollution, on the deterioration of productive resources in developing countries.

It is important to appreciate the degree to which these seven countries are responsible for these problems. While they have only 12 percent of the world's population, they have 41 percent of the carbon dioxide emissions contributing so much to the greenhouse effect. They have 60 percent of the chlorofluorocarbon emissions contributing both to the ozone depletion and to the greenhouse effect, and 66 percent of the hardwood imports from tropical forests contributing to deforestation.

So, what the G–7 countries do themselves is mightily important. It is also important because if they do act, it can validate the seriousness of these problems for other countries, and these are the countries that have the resources, both technological and financial, to do something about these problems.

I would like to highlight several areas where I think the summit communique makes important statements and commitments, but I would underline again that the Paris communique was noticeably short on specifics and that is perhaps its greatest deficiency. In each of the areas I want to talk about, I will mention briefly some specifics that I hope the administration and the Congress might consider in the coming year before the summit reconvenes here.

I want to mention first that the call for debt reduction and dealing with the international debt in a debt reduction mode was one of the highlights of the summit. That is also an environmental commitment, Mr. Chairman, in our view. The process of managing the external debt of the Third World has contributed to environmental deterioration in the developing countries. It has also distracted leadership attention away from what might be real concern with environmental issues. And until we can get this debt problem further behind us and better under control, I doubt if we will be able to deal successfully with global environmental concerns.

The summit also called for serious measures to integrate environmental considerations into traditional economic areas. The West Germans have acted since the summit, Mr. Chairman, to call for a revised system of national income accounts, a new way of calculating GNP, as a supplement to the old way that takes into account environmental considerations. We have done a number of studies of the importance of this. For example, the Indonesian

gross national product growth over the past 15 years is roughly halved if you treat resource depreciation like you treat capital depreciation. So, we believe that one of the key areas for following up on the summit's call for integration of environmental and economic considerations is in reform of national income accounts.

The summit called for a phasing out of chlorofluorocarbons in this century, and we certainly applaud that commitment. We will need U.S. leadership at the forthcoming meetings, particularly the meeting in London next year which will revise the Montreal protocol and could lead to an international commitment to phase out chlorofluorocarbons in this century.

One of the most important commitments the summit made was to call for common efforts to limit the emission of carbon dioxide and other greenhouse gases. These efforts were strongly advocated. And I think the key thing for the United States to do, Mr. Chairman, in the wake of this commitment is to develop a national energy strategy on a fast track that can serve a number of national needs. We are one of the most energy wasteful countries in the world. It is affecting our balance of payments, our international energy security, and our environment, and it is one of the principal contributors to the global deterioration of the atmosphere and to the buildup of greenhouse gases.

What we need is a national energy strategy that focuses on energy efficiency improvements of such a scale and magnitude that we actually begin to reduce at considerable rates the use of fossil fuels and the emissions of various pollutants, including carbon dioxide into the atmosphere. We do not have such a national strategy. We are lacking in our ability to give national leadership because of it. Our energy policy is our foreign policy, and until we get our energy situation straightened out at home, we will not be able to give the international leadership that we should be giving on this issue.

The summit also called for a rapid implementation of and new funding for measures to save the tropical forests. We were particularly gratified that the summit referred to the Tropical Forestry Action Plan favorably. It is a plan that our organization helped to develop with several international agencies. The plan needs to be strengthened. It needs more serious backing by the United States. It has not had the depth of backing and the depth of funding that it needs to succeed, and it will not do the whole job. So, more needs to be done. And we will look forward to an administration effort in this area as well.

One of the most important things I think that the summit communique did was to call for a series of economic incentives that might induce or encourage cooperation and action on the part of developing countries on environmental issues. They mentioned the increased development assistance for environmental objectives, technology transfer on energy and related environmental issues, debt reduction, linked to achievement and promises on environmental objectives, environmental conditionality, if you will, and increased use of debt for nature swaps. These are all specific things that could be and I believe should be pursued in the coming year. We have got to find a way to bargain, in effect, on the internation-

al front with the developing countries, assuming mutual burdens for mutual gains.

Last, Mr. Chairman, the summit called for the strengthening of international institutions to deal with these issues. Nothing could be more important. The U.N. system for dealing with the environment was devised 20 years ago before the seriousness of the current problems were recognized. We need strengthened U.N. institutions, perhaps reformed and revitalized institutions, and certainly one of the key things that needs to be done is that we should be sharply increasing our support for the U.N. Environment Programme which, frankly, has been starved in part because of the declining U.S. support over the last decade.

A number of things that we should do I think, Mr. Chairman, involve unilateral U.S. action, and one of the worst things that can happen is that we wait on other countries to reach agreement with us before acting. The problem with acting unilaterally, of course, in this area as in many others is that we can later get penalized and not get credit for the effects of our unilateral actions. And that applies to other countries as well.

So, I would strongly advocate some type of early international agreement which would recognize and give credit for unilateral action; for example, in reducing carbon dioxide emissions and other pollution emissions in the United States so that we do not sit here waiting on everyone else to come to agreement with us before acting.

As I mentioned, the omission of the population issue is a serious one I think. It stands behind so many of the world's environmental problems. The problems that we have been discussing this morning may be solvable in a world of 8 or 9 billion people, almost a doubling of the current population. They are I fear fundamentally unsolvable in a world of 12 to 14 billion people, which is the upper range of projected population growth in the next century today. So, unless we add the population concern to this international agenda, I do not think we will make the progress that has to be made.

In conclusion, Mr. Chairman, the coming year will be a critical one. The State Department has already confirmed what everyone anticipates and that is that environmental issues will again be a major topic of the summit when it reconvenes in the United States next year. If the United States is, in fact, going to give important international leadership on environmental issues, if we are going to have something to offer to the world and to the other G–7 countries when they come to the United States next year, this coming year is going to have to be a year of real action and real initiative on the part of the administration and I would hope the Congress as well.

Thank you very much.

[The prepared statement of Mr. Speth follows:]

STATEMENT OF GUS SPETH, PRESIDENT, WORLD RESOURCES INSTITUTE

At what has been styled the "first green summit" in Paris July 15–16, the leaders of the G–7 industrial nations addressed today's global environmental challenges in depth for the first time. In my view, they acquitted themselves well, overall. They articulated an appropriate sense of urgency. They identified the right problems, though they left out one of the most important. They pointed to the right solutions, although in general terms. And they made a series of very important commitments,

implicitly or explicitly promising action. The key issue now is whether these pledges will be honored—whether they will be implemented with unilateral and joint initiatives.

President Bush in Paris called for "urgent action to preserve the Earth." I hope that this signals what it seems—a commitment by the President to develop an administration plan of action to address global environmental challenges.

It is important to step back and ask why environmental issues are now being taken up at summit meetings. The reason is part environmental, part economic, and part political.

On the environmental front, the level of world economic activity has now expanded to the point that for the first time it is affecting the environment on a global scale. As a result, the line between domestic and international environmental concerns is fast collapsing. No nation acting alone can protect even its own domestic environment. Henceforth, U.S. environmental policy must be set in concert with other nations. This is a new reality for the United States, though it has been recognized as a necessity in Europe for some years.

Economically, the new reality is that economic and environmental concerns are beginning to intersect in powerful ways. Economic activity threatens to interest in powerful ways. Economic activity threatens unacceptable environmental change; environmental changes in turn threaten the economy. Energy, technology, trade, debt and aid are established summit topics, but they can no longer be intelligently discussed apart from their links to environmental issues.

Politically, the public here and in Europe is voicing increased concern. Moreover, there seems to be a healthy competition for international leadership among key countries and their leaders.

For all these reasons, it was extremely important for today's environmental challenges to reach the summit. Not that they have, I expect they will stay there. The truth is that the global environment is in deep trouble. The G–7 leaders are correct in their assessment that "decisive action is urgently needed" on ozone depletion, global warming, forest and biodiversity loss, marine pollution, and the deterioration of productive resources in developing countries. Indeed, the G–7 countries are a big part of the problem themselves. Together they account for only 12 percent of the world's population, but 41 percent of carbon dioxide from fossil fuel use, 60 percent of chlorofluorocarbon use, and 66 percent of hardwood imports from tropical forests. What the G–7 countries do is therefore vitally important in its own right. But G–7 leadership is also needed to validate the seriousness of the problems for others. Moreover, the G–7 countries have the resources—both financial and technological—to create the incentives needed for North-South and East-West cooperation.

I would like to highlight eight areas where commitments made in Paris seem particularly important. The Paris communique was noticeably short on specifics, and that is perhaps the greatest deficiency. In each of the eight areas, I would like to mention specific steps the administration and the Congress could take in the coming year.

(1) *The call for debt reduction and other measures to ease the burden of external debt on the Third World.*--Industrial country management of the Third World's external debt has done more than rivet attention on the immediate need to provide debt servicing, to the detriment of environmental, social and other economic concerns. It has also resulted in economic stagnation that has further marginalized the poor, intensifying pressures on erodible solid fuelwood supplies, and other resources. Both debt relief and new financing are essential if growth is to be restored and developing country leaders are to find the wherewithal to turn attention to the challenges of sustainable development and international environmental cooperation. A key goal for the coming year, leading up to the summit here in 1990, is to ensure that the Brady Plan and other initiatives actually succeed in reducing the burden of the debt.

(2) *The call for serious measures to integrate environmental considerations into economic decision making, such as decisions on debt, trade, development assistance, economic policy reform, and national income accounting.*—Obviously, many concrete initiatives are possible here, but I would like to stress the importance of integrating environmental considerations into national income accounts, the leading measures of national economic performance. Today, a country could exhaust its mineral resources, cut down its forests, erode its soils, pollute its adquifers, and hunt its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared. West Germany has announced an impressive plan to reform its GNP calculations. The United States could do the same, and could urge international agencies to promote the needed reforms.

(3) *The call for an explicit focus on speeding the process of technological innovation toward new clean, closed systems and facilitating access to technology by developing countries.*—One of the most important things that can be done in this area is to establish a national commitment to large scale United States reliance on clean, renewable sources of energy. The Carter administration took a major step forward when it set a national goal of 20 percent renewable energy for the U.S. by 200 and backed up this goal with R7D efforts, tax incentives, and other measures. The plan was abandoned by the Reagan administration. We know a lot more today that we did a decade ago. I am confident that the Bush administration, should it choose to do so, could put together a more compelling and attractive plan than the one we devised in 1979.

(4) *The call for phasing out CFC's in this century.*—Hopefully, the United States will lead in this effort when the treaty to protect the ozone layer is revised next year in London.

(5) *The call for "common efforts to limit the emissions of* CO_2 and other greenhouse gases" (such efforts were "strongly advocate[d]"), and the recognition that such efforts will require new energy strategies which place high priority on energy efficiency.—Major national and international initiatives to begin reducing greenhouse gas emissions are needed. For the United States, the world's largest emitter of greenhouse gases, the single most important step is a national commitment to energy efficiency gains that are large enough to make fossil fuel use and releases of carbon dioxide decline steadily. The most economically attractive way to achieve this goal is through taxes or fees on the emission of carbon dioxide, CFC's, and perhaps other greenhouse gases. Such taxes would stimulate energy efficiency improvements, discourage practices and technologies that contribute to global warming, and provide needed revenues that could be used for a variety of purposes, including environmental ones. Indeed, the unpopularity of new taxes could be reduced if one stated purpose of the tax were to raise funds for environmental protection.

(6) *The call for rapid implementation of, and new funding for, plans to save the tropical forests.*—It was gratifying to see the summit communique stress the importance of the Tropical Forest Action Plan, an international effort that WRI helped to launch. To attack seriously the deforestation problem, the United States should seek to strengthen TFAP and should commit the financial support required. We should also ask what new initiatives beyond TFAP are needed.

(7) *The call for providing economic incentives for Third World cooperation and action, including: increased development assistance for environmental objectives, technology transfer, debt reduction linked to environmental objectives, and "debt-for-nature" swaps.*—Access to substantially increased capital flows and development assistance from the North can be linked to developing country progress in meeting environmental and population challenges and in taking the difficult steps that these challenges require. A system of incentives can be created by tying enhanced assistance to policy reforms and other initiatives, by earmarking much larger sums for environmental purposes, and through broader conditionality mechanisms. The International Conservation Financing Project (sponsored by WRI, the U.N. Development Programme and others) has identified a substantial list of opportunities—among them, dedicated environmental funds in development assistance agencies, a global environmental trust fund, and a new International Environmental Facility to identify critically needed conservation projects and stimulate cofinancing from public and private sources.

Also, "debt-for-nature" swaps have already proven useful in biodiversity conservation, and both creditor and debtor countries could adopt policies that expand their use. Can the debt-for-nature concept be scaled up to make it relevant to other major challenges, including debt relief deforestation, and global warming? The potential certainly exists. By an accident of history and geography, one-half of the Third World external debt and over two-thirds of the global deforestation occur in the same 14 developing countries. A bargain could be struck between North and South that would "exchange" debt for forest conservation on a scale large enough to make a dent in both. the global environment would receive a triple benefit if the public funds needed to purchase discounted debt from commercial banks were to come from taxes levied by industrial country governments on greenhouse gas emissions. Beyond such arrangements, the current Third World debt situation provides other opportunities that can benefit both North and South. Broadbased debt restructuring plans for debtor countries could include strong environmental conservation provisions and specific requirements for policy reform such as elimination of the frequent subsidies that encourage deforestation and energy waste. World Bank and other lending to support debt reduction could be tied to such reforms.

(8) *The call for strengthening international institutions and mechanisms, including the U.N. Environment Programme.*—One simple and tangible indication of U.S. commitment on these issues should be a major increase in U.S. support for the U.N. Environment Programme, the agency that is taking a leading role in negotiating international conventions on global atmospheric issues.

On a number of these international issues, it is important that the United States take action unilaterally. To encourage this, and to ensure that the United States and others that move ahead without awaiting a multilateral response not be penalized later, an international understanding of some type should be reached which provides for recognition of "credit" in subsequent agreements of gains made through early unilateral action.

I noted previously that I find one major omission in the summit communique—the absence of any discussion of the importance of world population growth. Excessive population growth is a leading factor in environmental deterioration both globally and in particular countries. Leadership from the G–7 countries is also needed in this area.

In conclusion, the coming year will be a crucial one. The State Department has already confirmed what everyone anticipates: that environmental issues will again be a major topic when the summit meets in the United States. If the United States is to give important international leadership on environmental issues and have something concrete and impressive to offer at the next year's G–7 meeting, the coming year will have to be a very busy one for the Bush administration and for the Congress.

To counter the environmental deterioration that is now quite literally out of control, the United States and other G–7 nations must move quickly to reach understandings and to act to sustain the Earth and its people. Eventually, nothing less than a global bargain between North and South, East and West, will be needed. But the burden of international leadership falls squarely on the G–7 countries. We must hope that the Paris summit will be viewed in retrospect as a major milestone in this regard.

Thank you.

Senator SARBANES. Thank you very much. It is a very helpful statement. The full statement will be included in the record.

Mr. Bergsten, I wanted to put to you a couple of very quick questions and maybe perhaps some short answers. First, your evaluation of the Mexican debt package.

Mr. BERGSTEN. I think the Mexican debt deal is very useful. It is helpful. It will help both Mexico's problems and it will help the international financial situation.

It would have been better if it were considerably bigger. That would have required more public resources from the IMF, the World Bank, being in the pot, but I think that would have been desirable, and if we could use that as a model for the future, it would be desirable as well.

I think we have to have one thing clearly in mind. The Mexico deal by no means resolves the overall Third World debt problem. Mexico was the easiest of the country problems, easiest in economic terms because Mexico has done a far better job of economic reform than any of the other big debtors, easier in political terms because of the close relationship with the United States and our particular concern for Mexico.

So, we better not declare victory yet even in the limited terms of the Mexican deal itself. The next country deals are going to be significantly harder.

Senator SARBANES. Through some very helpful testimony of yours and through other efforts, a provision was included in last year's requiring the administration to report on exchange rates and in particular on nations that might be manipulating their exchange rates against the dollar. They have now submitted two such

reports, and I wonder what your perception of how that process is working.

Mr. BERGSTEN. I think there is both good news and bad news on that process, Mr. Chairman. The Treasury, after having vigorously resisted those amendments, as you will recall, now is the first to say that the legislation has helped them enormously in their negotiations with the alleged manipulators, particularly Korea and Taiwan. And as a result, in large part of that process, those countries have now let their exchange rates appreciate enormously.

In the case of Korea the won has risen so much that in the first 7 months of this year, the Korean trade surplus has actually disappeared. Now, there are a few other elements in that picture, and I do not think it is going to stay at zero, but Korea has already achieved an enormous adjustment in large part by letting the won rise by over 30 percent from where it was when this process started.

In the case of Taiwan, the currency has been permitted to rise by 40 percent against the dollar. Their surplus was cut about in half last year. I think future progress can be expected. So, on that count, I think the legislation and the way the Treasury has implemented it has been extremely successful, and you are to be congratulated.

The bad news is that the Treasury itself in its reports and I think the committee in its surveillance has put a little too much focus on those Asian NIC currencies. They are important, but they are not the big part of the story, which is the Japanese yen, the German mark, the industrial country currencies. And the fact that those currencies were stabilized now for over 2 years at levels that are still at least in my judgment way out of line with producing an underlying balance in our trade relations, as I mentioned before, is something that needs now to be taken up very aggressively.

I would hope you in the Congress and the Treasury itself would take another look at what those exchange rates ought to be, what policy actions can be taken to correct them further in the interest of restarting this progress toward trade balancing that I talked about. I think we need a second plaza agreement in which the countries agree to take another ratchet downward in the dollar exchange rate not across the board, but against the surplus country currencies, the yen and the Europeans, to get the trade corrections started again. I hope you will use that legislative language, the process with the Treasury reports, to push that very hard over these next 6 months.

Senator SARBANES. What is your reaction to Mr. Speth's suggestions for changes in the national income accounts, to include an environmental accounting?

Mr. BERGSTEN. I think it is very desirable. I would not use it to replace the existing accounts, but I think, as he put it, a supplementary account would be very desirable.

Economists have been very unhappy actually with the national accounts on a variety of grounds. They fail to take into account lots of economic and quasieconomic activities, the value of leisure, the economic benefits of working in the home, for example, by wives. There are lots of flaws in the income accounts. I think adding an

environmental component at this point would be an extremely constructive step.

Senator SARBANES. Well, I am struck by his testimony—and I just quote it—"Today a country could exhaust its mineral resources, cut down its forests, erode its soils, pollute its aquifers, and hunt its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared."

As an economist, have the concepts to reflect all those things been worked out or do we face a major problem in achieving that?

Mr. BERGSTEN. He could probably comment better than I. I am not a resource economist and do not know the details of how you calculate resource depletion. But I think the principle is very clear. He made the analogy to depreciation of capital assets. There certainly are techniques for assessing the potential lifespan of natural resources, what their deterioration rates are likely to be.

The problem I think would come in real lifespans and the possibility of renewing resources. But for those which are not renewable, I think it is fairly straightforward.

Senator SARBANES. Mr. Speth, do you want to comment on that?

Mr. SPETH. Senator Sarbanes, in the study that we did in Indonesia—and we are now doing similar studies in Costa Rica and in China and in India with colleagues in those countries—we did look at the rate of deterioration or depreciation, if you will, in the mineral sector, in the forest sector and in soils and were able to come up with estimates of what should be subtracted each year from the growth in national income so that net national product grew substantially less, only about one-half.

So, I think in certain areas, to answer your question, the methodology is rapidly emerging, and the West Germans hope to have a system of accounts that takes environmental considerations into account in an industrial country toward the middle of the 1990's for the first time.

So, I think both in the developing country context and in the industrial country context, there is a rapidly emerging methodological consensus on how to do this, but it is not fully there yet in all areas. For example, in wildlife species extinction and things like that, it is much more difficult.

Senator SARBANES. Mr. Bergsten was pretty clear about what he would have added to the economic dimensions of the agenda at the summit, and I was wondering what additions or deletions you would have made to the environmental agenda if you had been responsible for it?

Mr. SPETH. Well, Mr. Chairman, in each of the sort of major areas where they made general promises for future action, I think it would have been useful to have specific pledges. For example, they could have made much stronger commitments about bringing environmental considerations into the deliberations on the international debt crisis. Those links are very poorly established today, and the people dealing with the debt management issues are not really conversant with the environmental effects and the potential for environmental conditionality, if you will.

A recent meeting of finance ministers in Africa criticized strongly the kinds of conditionality put on by the IMF and the World Bank in dealing with debt and structural adjustment issues and

urged these institutions to consider a different type of conditionality. And one of the things that was at the top their list was land reform, interestingly. And I think we need to bring new dimensions into the debt area. So, that would be certainly one thing.

I think a second thing should have been a definite commitment on the part of these countries to achieve reductions of targeted amounts in carbon dioxide and other greenhouse gases. Hopefully we will have that by the next summit, but there have been international conferences which have called for specific amounts and I think they could have gone a lot further toward committing themselves to energy strategies and other strategies which would, in fact, reduce the emissions of greenhouse gases.

In terms of omissions, as I said earlier, I think the population issue should have been on the list of priority concerns.

Senator SARBANES. What do you think are the key actions that the administration should take now to follow up on the rhetoric of the summit on the environmental questions? What should they do now? We have this document. We have this statement.

Mr. SPETH. To me, to put it in broad terms, what the Bush administration should do is to develop a broad plan of action filling it with specific initiatives in each of the key areas, in energy strategy in dealing with chlorofluorocarbon emissions, in bringing environmental conditionality into development assistance and debt relief and increasing the financial flows to developing countries, in an energy strategy which we do not have now and which focuses on reduction of carbon dioxide emissions and a transition into a new energy regime for the future.

Senator SARBANES. Is this unilateral or multilateral?

Mr. SPETH. I think the United States has got to move ahead on this range of issues on a unilateral basis. There are several things where we are engaged, like the chlorofluorocarbon issue, on a multilateral basis and where things are going very well on a multilateral basis. But if we wait until we achieve international agreement on all of these things, we will have waited too long in my judgment.

And one of the proposals that we have made is that there be an early agreement internationally, that countries that do move ahead unilaterally will get credit for the progress that they make on these various issues and will not be penalized in later agreements for progress that has been made by moving ahead unilaterally.

But, Mr. Chairman, my key point is that the administration fundamentally lacks a plan of action on these issues. There are bills in this Congress that identify important measures that can be taken on each of these great world problems, and many of them introduced in the Senate, many in the House. Together this legislation proposes a formidable plan of action to move ahead, but we need desperately broadbased administration leadership on these issues.

And I would encourage you and the committee and the administration more directly to develop—encourage you to join with us in urging the administration to develop a plan of action because I fear that the legislation will move too slowly unless the administration has resolved its own internal views about these various issues and is making a strong proposal to the Congress for action on these various fronts.

Senator SARBANES. Gentlemen, let me put this question to both of you. Mr. Speth, you have said world population growth is a big problem. You said leadership from the G–7 countries is also needed in this area. I take it population growth in the G–7 countries themselves is not a problem. Correct?

Mr. SPETH. Well, I do not think it is the core of the population problem.

Senator SARBANES. The population problem is elsewhere.

Mr. SPETH. Predominantly.

Senator SARBANES. So, the problem is elsewhere. We want the G–7 to take a lead on it.

Mr. Bergsten, you have talked that the G–7 should be the nascent steering committee of the future world order. Is that the correct phrase?

Mr. BERGSTEN. Right.

Senator SARBANES. The G–7 should be the nascent steering committee of the future world order.

And then we have talked about debt-for-nature swaps which would not take place in the G–7. They would take place elsewhere, I take it. Is that correct?

Mr. BERGSTEN. Yes.

Senator SARBANES. For the sake of this hypothetical question, I am not a member of the G–7. I am some other country. I am saying, well, now these G–7 nations are really taking it all unto themselves. They are telling me to do this and that. How do you handle this problem?

We see repeatedly a very strong reaction on the part of countries who say, you did not do a lot of these things when you were at our stage of development, now you are telling us to do them." How much of a problem is that and how do we address it?

Mr. BERGSTEN. Well, I would underline the words "steering group" that I used in that reference. I certainly do not view the G–7, which incidentally will collapse to a G–3 once there is a United States of Europe—then you do not have individual representation from these European countries. You have a European representative, an American, a Japanese.

Senator SARBANES. I do not know whether that makes the problem any easier.

Mr. BERGSTEN. No, just to make a factual point.

But when I say a steering committee, I mean an inner group that tries to set broad strategies pulling together all the various aspects of world economic developments. I think that has to be those countries because, as Mr. Speth said, they amount to such a large share of the world economy, both for good and for ill.

But certainly in the implementation and the development of precise plans, you have to have different groups on different issues. On energy, you have to have energy producing countries. On population, as you suggest, you have to have the countries with the rapid population growth.

So, the steering committee in my vision would kind of develop broad plans, interrelate across the issues, think of ways like they did at Paris to offer incentives to nonmembers to participate, but then go out and work with those countries very actively.

Senator SARBANES. What is the implication for your steering committee of the Gorbachev letter to the Paris summit?

Mr. BERGSTEN. Not much. I think it will be more than the decade I envisage here before the Soviets become anything like a significant enough factor in the world economy to be involved in such an activity.

I devoutly hope that the Soviet economic reforms, their greater engagement in the world economy do bear fruit and succeed, but even under the most optimistic assumptions on that front, the Soviets are really coming from a backward status. They do not make anything anybody wants to buy. It is going to be a very long time until their levels of trade, international economic exchange, become at all significant so that they would even be considered for participation in such a steering group.

Obviously you have to talk with them on a range of issues, including these environmental issues, and they would be involved I think in any committee of 10 or 12 countries that had to lay out the basic strategies and precise plans for dealing with the environment. But in terms of a steering group for the world economy, I think that is a long way away for them.

Senator SARBANES. Well, I am going to go to Mr. Speth, but let me just put this point to you before I do.

I take it you would say the same thing about China's economy, only even more so.

Mr. BERGSTEN. Yes.

Senator SARBANES. The fact of the matter is, though, is that if China proceeds with any economic development without doing something about CFC's, they will blow that issue wide apart, isn't that correct?

Mr. SPETH. Yes.

Mr. BERGSTEN. Yes.

Senator SARBANES. Now, it is your theory that you can get them to be major cooperative players in one arena but have excluded them in a sense, ruled them out, of another arena. I have some difficulty with that, but let's let Mr. Speth take a crack at this.

Mr. SPETH. Mr. Chairman, I think you are right that the north-south dimensions are critical and that the methods and process that we go through for eliciting cooperation with the south between the G–7 countries and the developing countries is critical. I think there are two preconditions to that cooperation.

The first is that work on these environmental issues has got to be part of a broader commitment to helping the poor countries achieve their development aspirations. It cannot be pursued in a way that is antithetical to their development aspirations.

And the second precondition is that they will rightly expect that in areas where joint action is required, that we pursue domestic policies first that straighten our own behavior, so to speak, before expecting leadership and cooperation from them.

To give you four specifics for what I think the United States ought to be moving ahead on its own, one would be reducing our own greenhouse gas emissions first; second would be increasing the flow to the south of our development assistance in the environmental area and in other areas; third would be reducing the burden of the international debt, the Third World external debt, as we have

discussed; and fourth would be to establish effective programs through which the industrial countries can cooperate and provide technical assistance and scientific training and other things to the developing countries as they come to grip with these problems.

So, we have to go about it in that way and not in a heavyhanded sort of top-down, northern-mandated approach.

Senator SARBANES. Let me suggest a heretical thought to both of you. Maybe we should use the U.N. again. There is a structure there. We can work, if we are skillful, within that structure. It does not create any of these problems that come with self-appointed directors of the world situation. One then says, "Well, we never get anything done," but I am not sure we have ever tried in a full-scale effort to get something done.

I noticed that the leaders at the summit on the environment talked about the United Nations Environmental Programme as requiring strengthening and increased financial support. And I wondered, Mr. Speth, what you reaction to that was.

Mr. SPETH. Mr. Chairman, I think that is definitely the future. The United States has had the luxury of setting its own environmental priorities and programs, but in the future those priorities and programs are going to have to be developed in concert with other countries. And that is new in Europe, but it is new for the United States.

I also agree with you that bringing the U.N. more strongly into the picture is essential for eliciting north-south cooperation. It is going to be much easier to deal with many of these problems if we are working through multilateral institutions than if we are working bilaterally just with the United States. And on issues like the carbon dioxide phasedown that seems to be looming for all countries on the horizon, that can only be done through an international framework eventually, and will require a convention, which the summit recognized, to achieve that.

So, as I said in my statement, Mr. Chairman, I think we will need a revitalized U.N. system for dealing with these issues. I think that is the only way that we will be able to deal successfully in the long run.

Senator SARBANES. One has to start thinking that if the nature of the superpower rivalry changes in a significant and perhaps fundamental way, it will create a new configuration at the United Nations. There may be important new opportunities there, if we are smart enough to identify and develop them, because I think we need some framework and a process that makes all of this work.

I think my sharpest criticism—and we are going to have Administrator Reilly shortly about—is that I am not sure what the post-summit framework or process is to keep moving. I do think, though, that since there is going to be another summit now in less than a year and since they gave so much prominence to it, they are going to have to figure out some way to produce results.

Mr. Bergsten, I want to put this final question to you. It is not directly on the subject this morning.

I have heard it argued by some—it is an interesting view—that achieving improvement in a trade position through currency rate adjustment; namely, a softer dollar, first of all, will not work on the trade front, at least with respect to Japan in particular because

they continue to run very large surpluses almost no matter what you do, so you almost have to look for some sort of managed arrangement; and second, that it is giving other countries the opportunity to buy American assets on the cheap, that there is a very strong negative downside to what we have been doing because while a softer dollar improves our competitive position on the trade front, it enhances the buying power of other countries as they move into the United States. In effect, they are acquiring American assets at a discount.

Could you respond to that?

Mr. BERGSTEN. Let me address the second of those first. The trade weighted average of the dollar now is about where it was in 1980. So, it is not in a factual sense a cheaper dollar. What happened was we got an extremely expensive dollar in the first half of the 1980's. That is what has created the trade deficits and the like. We have now reversed that back to where we were almost 10 years ago. I would not call that cheap.

Senator SARBANES. I agree with that point. I thought about that. But in that intervening period, we went from being a creditor to being a debtor nation. Other countries accumulated large amounts of money which they could then use, and so they are now able to use them at a highly discounted rate.

Mr. BERGSTEN. Well, that in fact would be my second point. Unfortunately, we have gotten ourselves into that position of being a huge debtor. Foreign assets are enormous and we continue to run these deficits which add further to the foreign purchasing power.

Now, we could try to just do that forever, avoid a lower dollar and any other means to correct our trade problem. But then, I would submit, the question you raise would be a worse difficulty because then with foreign assets rising $100, $150 billion or more per year, they would have more wherewithal to buy our assets, whatever the price, and they would have to do so because we would have to get the capital inflow.

Unfortunately, the foreign investments here, including the direct investments that are normally the focus of your question, are a part of the adjustment process. We have put ourselves in a hole where we need foreign investment, where in fact most of the foreign investment does, in fact, contribute to our adjustment process. The Japanese auto investments here are hopefully going to reduce our trade deficit with Japan and our trade deficit in the auto sector, which actually accounts for something like one-third of our total trade deficit.

Foreign purchases of U.S. assets and foreign production in the United States, production in the United States by foreign-based firms, are part of the answer, unfortunately, to the bind we put ourselves in by our own policies.

On your first question, will exchange rate changes work against Japan, it has been frustratingly slow and small so far. The straightforward answer is it would have been enormously worse in the absence of the currency changes that took place. There are a whole series of economic models—we have done some, the IMF, the Fed, others have done them—that show that if the dollar had not come down from where it was at its peak 4½ years ago the U.S. trade deficit would now be heading toward $300 or $400 billion per

year. So, you leveled it off at about $150 billion. You have brought it down some. That is not much progress from where you actually go to, but an enormous difference from where we would have gotten to, including vis-a-vis Japan.

Now, having said that, it is obviously not by any means the whole of the story. We have to take domestic actions. The Japanese have taken domestic actions. Their domestic demand is growing fast. But in their case I think it is now clear that there are structural phenomena in their economy that block trade adjustment.

I therefore think one of the constructive acts recently—should have mentioned it in the summit context, but it wasn't a summit action—was the launching of the this structural impediments initiative vis-a-vis Japan. You will recall that came in the super 301 context. That is going to go after Japanese land prices, the Japanese distribution system, the oligopoly structure of Japanese industry. It is going to take a long time to deal with some of those things like it will take a long time to deal with structural problems here like our low savings rate, but that may have to be the next big front in addition to further currency and macrochanges to deal with that Japanese surplus.

Senator SARBANES. One final question. Mr. Speth, do you think that the heightened awareness of the environmental problems is at a point where it is possible to have very rapid movement on concrete measures? Or are we at a period where there is a heightened awareness but as soon as we try to move to very concrete measures, we are going to run into all kinds of problems, are going to sort of break down and fragment and have an incredibly difficult time pulling together the world community? How do you see that? It is a broad question, but I am just interested in where you think we are along the path.

Mr. SPETH. Mr. Chairman, that is a broad question and undoubtedly the sort of implicit premise of the question is correct. It is much easier to postulate these broad issues and to talk about them and to have a lot of stories about them in the media than it is to get something done. And we are right at that cusp now where the critical issue has become can we translate this growing international concern, the statements of leaders east and west, north and south, increasing polled results—can we translate that into actual action.

I do not know the real answer to that question, Mr. Chairman, but I am impressed with the progress that is being made. I am impressed with the legislation that has been introduced into this Congress. I am impressed with the summit communique.

And I have to be optimistic that just as 20 years ago this country and other countries rose to the occasion and enacted far-reaching environmental legislation addressed mostly to domestic problems at that time, that this country and other countries 20 years later will, in fact, rise to the occasion and pass the legislation, reach the international agreements, write the treaties and enforce them that will be needed to deal with a new generation of environmental issues which are. in fact, more threatening by far than the issues to which we turned attention 20 years ago and have been working on since.

Senator SARBANES. Well, gentlemen, we thank you very much. We are particularly appreciative of your willingness to return after we were precluded from hearing from you at the July 20 hearing, and from our point of view, it was certainly worthwhile to have you back. I think your statements have been enormously helpful, and we appreciate it. Thank you very much.

Mr. SPETH. Thank you.

Mr. BERGSTEN. Delighted to do it.

Senator SARBANES. I see that Administrator Reilly has arrived and, Mr. Reilly, if you would come forward, we would very much appreciate it. Let me say, Mr. Administrator, that the Subcommittee on International Economic Policy, Trade, Oceans and the Environment is very pleased to have you here this morning.

We obviously want to focus on the environmental aspects of the summit, the agenda set forth in the communique and some of the questions it raises for the future. In fact, it is my understanding that the inclusion of the environment as a topic at the summit was the first time in the 15 summits that have taken place—and, of course, environmental issues were a focal point of the final communique. I think they have now become an inextricable part of the complex framework of international affairs.

I am frank to tell you I think your participation at the summit reflects some profound shifts in thinking about the environment. One is the central importance of environmental matters. As I understand it, the President's high level summit team had only five officials: the Secretary of State, the Secretary of the Treasury, the Chief of Staff of the White House, the National Security Adviser, and the Administrator of the Environmental Protection Agency.

Another profound shift is the extent to which domestic and international concerns are now bound together. Rigid lines that have separated one from the other have blurred and fine lines are fast disappearing. Obviously, there is no magical line or strategic defense system that can protect any nation against degradation of the global environment.

Third, is the increasing urgency of environmental issues. It is interesting to note, I think, that as recently as September 1987, 2 years ago, 41 nations signed the Montreal protocol on ozone depletion which set as its goal a 50-percent reduction in global use of CFC's by the end of this century. The 1989 summit communique calls for their complete elimination over the same time period. In 2 years we have gone from a position of a 50-percent reduction to complete elimination.

I think for all these reasons the positions taken by the G–7 on environmental policy deserve, indeed, demand careful attention. I do think, though, behind the policy positions, there are some urgent practical questions, and it is the question I put in a sense to Mr. Speth at the end of the previous panel. Assuming that the broad agenda set forth in the summit communique points us in the right direction, How do we translate general objectives into concrete policies and programs?

For example, how do the summit participants intend to involve governments who are not members of the G–7 in developing sound international environmental policy? What is the most effective and appropriate international forum for addressing the wide range of

environmental challenges that confront the world? Who will be the administration's point person charged with responsibility for ensuring effective coordination of all aspects of international environmental matters? And, obviously, what role is EPA likely to play in these matters? And, in fact, how well can your resources and structure be applied to that responsibility if, in effect, you are going to be drawn down that path?

We are especially pleased to have you here this morning. It is the first time we have had the EPA Administrator before this committee, and we hope it is the beginning of continuing fruitful discussion between the committee and the EPA on these matters. We would be very happy to hear from you, sir.

STATEMENT OF HON. WILLIAM K. REILLY, ADMINISTRATOR, U.S. ENVIRONMENTAL PROTECTION AGENCY

Mr. REILLY. Thank you very much, Mr. Chairman. I appreciate very much the invitation to appear here and your interest in the involvement of the Environmental Protection Agency in our summit activities and the relationship generally between environmental protection and international trade and economic policy and development.

I have a prepared statement which with your permission I will ask be included in the record, and I will simply summarize it.

Senator SARBANES. It will be so included. Thank you.

Mr. REILLY. Thank you.

I think the fact that it is the first appearance of an EPA administrator before this subcommittee is but one more indication of the degree to which the environment has become central to questions of international economic policy and development, and perhaps more than anything else, the communique from the economic summit underscored that fact. Nine out of 28 pages from that communique dealt with the environment. The urgency of attending to our environmental problems was underscored again and again, and the G-7 leaders were unanimous in calling for decisive action to address many of these environmental issues.

They specifically recognized in the communique the need to incorporate environmental concerns and considerations in every significant aspect of agriculture policy, energy policy, economic policy, trade policy henceforth. That I think is historic. It represents a milestone with the possible exception of drugs, no other issue discussed at the summit elicited more fervor and enthusiasm on the part of the participants at the summit. It was the first, in short, to focus on the environment as one of the main challenges confronting the community of nations.

The attention given to the environment and many of the specific initiatives that were agreed upon there owed a great deal to the leadership of the President. President Bush had decided early on that he wished to make the environment a central preoccupation of the summit leaders. He decided to take his EPA Administrator to the summit. No other participant in the G-7 meeting was accompanied by an environment minister.

We thought long and hard and worked a great deal on many of the initiatives that the administration has gone forward with do-

mestically to see whether they had international application or interest or possible relevance. We specifically endorsed pollution prevention, attention to oilspills, concern for global climate change, involvement with reforestation and discouragement of deforestation, policies affecting our multilateral aid and lending institutions as they take into account the environment, debt-for-nature swaps and the important role that they have in addressing conservation imperatives in the developing world, the relationship between debt and environmental protection in these countries which are so disproportionately burdened both by biological richness on the one hand but very stressful and distracting debt on the other.

We had a major preoccupation with scientific research and the need to accelerate the scientific investigations into some of the outstanding questions that underlay the whole question, the whole issue, of climate change. And the communique reflects the priority for getting answers to these questions, putting resources into the research, doing so on a cooperative, multilateral basis, but it also recognizes the need to take actions nevertheless, sometimes in the absence of conclusive scientific evidence and to recognize that getting answers to these questions should not unduly delay response to some of the problems.

The declaration asks for enhanced international cooperation in technology transfer. It encourages the World Bank and regional development banks to integrate environmental considerations into their activities, and it particularly takes into account the special problems of developing nations, nations which have the difficult task of adapting to such problems as the phaseout of chlorofluorocarbons to which the seven nations represented in Paris committed themselves and their countries by the end of the century, the nations that are going to have particularly difficult economic problems with that transition and their need for technology transfer and help with getting access to technology and with getting access to substitutes for chlorofluorocarbons.

There will be a number of meetings in the months ahead that will address many of the issues raised and discussed in Paris. The first is the October session of the Response Strategies Working Group of the Intergovernmental Panel on Climate Change. The IPCC is sponsored by the World Meteorological Organization and the United Nations Environment Programme. It has been the principal forum for considering both the problems of chlorofluorocarbon phaseout and global climate change. The United States chairs the Response Strategies Working Group and has itself initiated the meeting that will be held in Geneva, and we will be the host at that meeting.

That will be followed by a ministerial session to which we committed ourselves when President and the official party went on to the Netherlands after Paris, and the Prime Minister of the Netherlands invited us to be represented. I will represent the United States and head our delegation to a meeting in November in the Netherlands at which we expect some 70 environment ministers to take some of these questions a step further, ask and discuss the timetable for possibly moving ahead on negotiations for a framework convention, and preparing generally for the plenary session

of the Intergovernmental Panel on Climate Change, which is scheduled to take place in Washington early in 1990.

The declaration from Paris addresses the subject of Third World debt, and it is something I would just say a few words about now. I have just come this morning from an announcement with the Agency for International Development of a $1 million commitment to a debt-for-nature exchange through the World Wildlife Fund with the Government of Madagascar. This approach specifically received the endorsement of the G–7 group.

We would hope and expect that in the months and years to come there will be other opportunities to make creative use of the fact that debt is one of the things in plentiful supply in this world and particularly affecting those countries that have a good deal of biological richness of species of flora and fauna that need protection but countries which have found it difficult to give the kind of priority to conservation that is needed in the face of the debt service burdens that they now carry.

In sum, let me just say that I think protection of the environment for Americans will increasingly involve international agreements and will depend on cooperation of developed and developing countries alike. We are very much now in a mode of needing to recognize that whether the issue is phasing out chlorofluorocarbons or beginning to address greenhouse gas emissions, the United States is not in a position alone to solve those problems. We have to have the cooperation of other nations. We are working in various forums to try to ensure that, and we very much recognize that the environment must be a high priority not only of our domestic policies, but also of our foreign policy.

As the lead article in the London Economist on the first green summit observed:

> What defense has been to the world's leaders for the past 40 years, the environment will be for the next 40, an intractable exercise in national self-restraint where gains depend less on what individual countries do than on whether many countries trust each other and will work together.

I know that this subcommittee will play an important role in giving advice and consent to treaties addressing environmental concerns. We very much look forward to working with you on many of these issues, are pleased to be here today, and look forward to answering questions that you may have.

Thank you.

[The prepared statement of Mr. Reilly follows:]

STATEMENT OF WILLIAM K. REILLY, ADMINISTRATOR, U.S. ENVIRONMENTAL PROTECTION AGENCY

Mr. Chairman and Members of the Subcommittee, I am very pleased to be given this opportunity to be here today. On July 10, I returned from a memorable trip—the Paris Economic Summit, the fifteenth such meeting among the heads of state of the Group of 7. This was the first to focus on the environment as one of the main challenges confronting the community of nations.

The concerns highlighted by the Group of 7, which now effectively includes the European Community, are broadscale—the threat of climate change, acid rain, deforestation, sustainable development, and the integration of environmental assessment procedures in national and international decision making, protection of the oceans, and more. The Group of 7's extensive consideration of the environmental challenges we face, as well as the prominence given to these matters signal that

concern for the environment has moved from the margins to the mainstream of global interest.

I would like to point to what many others have noted—the leadership and direct involvement of President Bush in bringing about these important developments. Hiw unprecedented decision to include me as a participant at the Summit, his talent in helping create a consensus on environmental issues, his political courage in committing his administration to deliver a Clean Air Bill, his efforts toward an accelerated phase out of certain fully-chlorofluorocarbons (CFC's) and halons, and other environmental initiatives have contributed greatly to the result.

The process of consultation that led to the Paris Summit Economic Declaration (hereafter referred to as the Declaration) was preceded in this country by a similar process of cooperation and dialog involving the National Security Council, the State Department, Treasury, EPA, and others. This experience in preparing for the event may prove to be one of the summit's lasting effects as the United States begins to focus on the tasks that lie ahead in the environmental arena and in preparation for the 1990 summit here in our country.

I would like to briefly review some highlights of the environmental portions of the Declaration in this context. (The text of the Declaration is attached to my statement). The most important point about the environmental portions of the Declaration is the broad consensus it reflects about a wide array of global environmental issues, which are recognized to be serious. In a number of respects the President has already taken steps to move forward in these areas. In other areas, EPA has been consulting with the State Department and other federal agencies about appropriate follow-up steps.

All countries are requested in the Declaration to further scientific research on environmental issues and to improve environmental observation and monitoring on a global scale. President Bush has since announced support for an international "Mission to Planet Earth" to monitor global change.

The Declaration also states a need for enhanced international cooperation in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions. In addition, it calls for assessments of price signals and regulatory actions in connection with achieving sustainable development that are based on the full value (and depreciation) of natural resources. These matters will be explored more fully next year in Bergen, Norway, preceded in this country with a workship cosponsored by EPA here in Washington.

I would now like to take a moment to summarize some of the other important global environment topics that are addressed in the Declaration.

First, in the interest of sustainable development and environmental protection, the World Bank and regional development banks are encouraged to integrate environmental considerations into their activities. The administration has made a concerted effort to promote early, public environmental assessments by the multilateral development banks and will continue this effort.

Second, with respect to the relation of environmental goals and the needs of the developing countries, the Declaration stipulates that in special cases, the Overseas Development Assistance debt forgiveness and debt for nature swaps can play a useful role in environmental protection. The Declaration also emphasizes the need to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environment challenges.

Third, the Declaration states that the depletion of the stratospheric ozone layer is alarming, calls for prompt action, and endorses the early phase out of CFC's listed in the Montreal Protocol by the end of the century. This position reflects the emerging world-wide consensus on this issue.

Fourth, the Declaration gives strong support to pollution prevention, including waste minimization, and increasingly important theme in our environmental protection efforts.

Fifth, the Declaration states that a framework global climate change convention is urgently required. To quote for a moment Paragraph 45, it states as follows: "We believe that the conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to mobilize and rationalize the efforts made by the international community."

And finally, the Declaration addresses other important global environmental topics, such as forests, biological diversity, oceans and coastal waters, international environmental law, and a strengthened United Nations Environment Programme.

In my judgment the environmental protions of the Summit Declaration give us the foundation to achieve significant further progress on major global environmental issues. For example, it fully support the efforts to strengthen the Montreal Pro-

tocol. Progress in this effort is related to industry's success in developing and testing satisfactory substitute chemicals for fully halogenated CFC's, halons and other ozone depleting chemicals. On the subject of a framework convention on global climate change, the Declaration finds that the conclusion of such a framework or umbrella convention is urgently required.

We expect to pursue the issues involved in such a framework convention at the October session of the Response Strategies Working Group of the Intergovernmental Panel on Climate Change (IPCC) in Geneva. It is significant that the President has offered to host the next plenary session of the IPCC in Washington early next February. This meeting should clarify when the actual negotiations to establish the framework for the climate change convention might start.

I would like to draw attention to the Summit Declaration's many references to the necessity of recognizing the interests and needs of developing countries in sustaining the growth of their economies and of helping them find the financial and technological requirements to meet the environmental challenges. If we do not have the participation of the large developing countries such as Brazil, China, India and Indonesia in the Montreal Protocol and in discussions regarding a climate change convention, we face the prospect that these approaches will become increasingly ineffective. Today, the developing countries are the source of one-fourth of greenhouse gas emissions. Early in the next century they are likely to increase to over one-half. The United States and the other members of the Group of 7 developed country group recognize the need to build support in the developing countries for cooperation on global problems. As the Declaration recognizes, this will require economic incentives including aid, transfers of technology, official debt forgiveness and debt for nature swaps.

We can also increase our help to other countries facing severe pollution problems. They want our help. They know we have made great progress in reducing pollution, and they need our expertise. One of the most welcome and least expensive objects of our foreign policy is the help, the information, and advice we provide developing countries in better managing their wastes and reducing their pollution.

You will note that the Summit Declaration repeatedly refers to the concept of sustainable development. Paragraph two of the Declaration states that "Protecting the environment calls for a determined and concerted international response and for the early adoption, worldwide, of policies based on sustainable development." This is the same formula that is espoused in the Brundtland Commission report for the principle that both developed and developing countries have a duty to manage their resources and environments so that they are not used up or damaged for succeeding generations. The Declaration's endorsement for both developed and developing countries of methods to clearly assess the costs, benefits and resource implications of environmental protection, reflecting where possible the full value of natural resources, is a potentially very important tool of sustainable development worldwide. In this connection the Group of 7 has asked the OECD to examine how selected economic indicators could be developed within the context of its work on integrating environment and economic decision making.

The Group of 7 Summit clearly recognizes in its discussion of sustainable development that the World Bank, the Inter-American Bank, and the Asian and the African Development Bank must be teachers of sustainable development concepts. These banks are encouraged to integrate environmental considerations into their activities. The Declaration strongly supports rapid implementation of the tropical Forestry Action Plan, which was adopted in the framework of the Food and Agricultural Organization in which the World Bank is participating. The Declaration calls for the adopting of sustainable forest management practices and preparation of a report on the state of the world's forests. And it encourages sustainable use of tropical forests which the Group of 7 is ready to assist through financial and technical cooperation, and in international organizations such as the World Bank and regional banks.

In connection with incorporation of environmental assessments into the transactions World Bank and the regional banks, EPA has submitted testimony to the Senate Environment and Public Works Committee endorsing a U.S. recommendation that the development banks strengthen their environmental assessment procedures and establish mechanisms for timely public comment on environmental assessments.

One final point I would like to make about the substance of the Summit Declaration is its contributions on the subject of third world debt. There is a brief endorsement of the Overseas Development Assistance debt forgiveness and debt for nature swaps in special cases in the environment section of the communique. Elsewhere the Declaration gives strong support to the Brady plan, including: (1) increased focus by commercial banks on voluntary, market based debt and debt service reduc-

tion operations as a complement to new lending; (2) support by the IMF and World Bank for significant debt reduction through use of a portion of policy based loans, as well as interest support transactions; and (3) a reminder to creditor commercial banks in Europe, North America and Japan to take realistic and constructive approaches in their negotiations with the debtor countries and to move promptly to conclude agreements on financial packages, including debt reduction, debt service reduction, and new money. The recent debt agreement with Mexico is particularly welcome, environmentally speaking, since there is no question that debt relief will be helpful to the cause of environment protection in the developing countries.

It is clear we have very important tasks ahead of us in protecting our global environment. The Group of 7 Summit in July of 1989 marked a very solid step forward. We are and shall be giving serious attention to follow-up actions called for in the Declaration. With it we hope to be able to report substantial progress by the time of the next Summit in 1990, which will take place in the United States.

the task of international cooperation on environmental matters has reached a new stage and the United States has every opportunity to be in the forefront. As the *Economist* magazine's lead article on "The First Green Summit" observed, "What defense has been to the world's leaders for the past 40 years: an intractable exercise in national self restraint, where gains depend less on what individual countries do than on whether many countries trust each other and will work together."

The Subcommittee will play an important role in giving advice and consent to treaties addressing environmental concerns. Protection of the environment for Americans will increasingly involve international agreements and depend on the ability of the developed and developing countries to work together to protect the global environment. You already have before you recommendations on two important International Maritime Organization protocols on liability arrangements and a compensation fund for oil spills from ships. We urge your early and favorable action on them. In addition, we are currently considering recommendations about United States participation in the Basel Convention on Hazardous Waste Exports. We will keep your Subcommittee closely informed on the parties' efforts to strengthen the controls in the Montreal Protocol on substances that deplete the ozone layer, and on the start of preparations for the workshop on global climate change which is expected to take place later this fall.

The United States has may advantages in the task of mobilizing international institutions to help protect the environment. We have played a leading role in setting up many of the international organizations involved, such as the United Nations Environment Programme, the Food and Agriculture Organization, the International Maritime Organization, and the World Meteorological Organization. We are viewed as having very broad domestic experience on environmental protection issues. I find a general sense that U.S. leadership leadership is a critical factor in building initiatives. There is a great deal of good will for our constructive initiatives. We are a bridge between many different groups of countries.

I hope that I have touched on all the issues that you have asked me to address today. I will be glad to answer any questions you may have.

Senator SARBANES. Well, thank you very much, sir.

I notice that in that same Economist editorial they go on to say, talking about the G–7:

The danger is that like inexperienced topiarists, they will aim for the grandiose and superficial rather than the modest and practical. To be effectively green, this summit needs to be about roots and branches, not twigs and leaves.

Let me ask this question of you. When we heard Under Secretary of State McCormack, who was apparently the sherpa for us in trying to put the summit together, we asked where we go from these summit communiques, and he replied:

The specific task of implementing those broad directions will fall to us in the meetings that we will be having in the next week or two to lay out assignments on an individual basis.

He went on to say:

I will be having a meeting myself in the next few days with the rest of my colleagues in the U.S. Government to block out the specific passages in the summit communique and make sure that followup is undertaken in each one of those areas.

Has that occurred? Have you been involved? And could you give us some review of what is transpiring?

Mr. REILLY. Well, sir, it is occurring. We have since the summit concluded an annual bilateral meeting with the Federal Republic of Germany. The environment minister of Germany, Dr. Klaus Toepfer, chaired that delegation. And we discussed with one of our leading partners in the European Community the possibility of our collaborating and developing positions, next steps, within the IPCC and in preparation for some of these fall meetings.

We have also had some conversations at the White House and with the State Department about specific aspects of the application of some of these commitments. No decisions have been made that I think are worthy of note right yet, but across the administration we are looking for practical means to implement some of the commitments.

We are testing our own capacity to influence some other governments, some of which have been very reluctant to acknowledge the need; for example, to move on full phaseout of CFC's and many more of whom have been reluctant to consider the global climate change issue as one requiring some adaptation in their economic policies or development plans. That, I think it is fair to say, is going to get a very high priority from our Government.

We risk—and I suppose this is one thing that the Economist article may have been getting at—becoming a bit distracted or misled by the relative consensus that characterized the meetings in Paris on the urgency of some of these problems and ignoring the fact that very important governments not represented in Paris do not know subscribe either to the science or to the policies that were proposed in many aspects of that communique. Working through a process of informal diplomacy with some of those governments, highlighting the science, I think personally involving many more governments in helping develop the scientific protocols is going to be necessary over the years ahead if we are to have much impact on some of those governments.

Senator SARBANES. Let me ask you this. The communique provides for a financial action task force on the drug money question. Is there going to be an environmental action task force to try to implement the communique's provisions on the environment?

Mr. REILLY. Secretary Baker, Governor Sununu, and I had a conversation with the President on Air Force One coming back from Amsterdam about the environment in which we were all agreed upon the need to give this a very high and urgent priority in the coming weeks. There was no decision to have a task force to address it, however. We have tended to operate on this either through the Domestic Policy Council or through conversations with various of the agencies affected on a specific part of the problem.

Senator SARBANES. Well, don't you think there ought to be some sort of council or task force that is given the charge and operates within our Government on an interagency basis?

Who is the responsible person in our Government for moving on the environmental provisions of the communique?

Mr. REILLY. Well, the President.

Senator SARBANES. Other than the President. The answer is always, "Well, the President." I mean other than the President. I

recognize the President is the responsible person, but he is the responsible person for so many things that he ends up, in effect, not being the responsible person. Who is the responsible person?

Mr. REILLY. Well, on matters of foreign policy, of course, the Secretary of State is the responsible person.

I have been asked both to brief the President on the environmental initiatives and to work on a good many of them in preparation for the summit and also to brief the press in Paris and later brief the Dutch Cabinet on the environmental issues, and have been very closely working with the Secretary of State and Governor Sununu on some aspects of that. But we have not felt the need thus far to set up any formal mechanisms beyond the agencies involved in specific aspects of these issues.

Senator SARBANES. And you do not feel any need for that?

Mr. REILLY. No, sir, I do not. No, I think that the process that got us the initiatives that we proposed and that finally resulted in many of them being incorporated in the communique was a very good one and a quite successful one.

Senator SARBANES. Let's discuss that process for a moment. Did the EPA or you in particular—were you, in effect, a sherpa that helped put together the summit, or was that done by the Secretaries of State and Treasury and the National Security Adviser?

Mr. REILLY. There were a number of sherpas. I think there were three. Under Secretary McCormack had the lead on the overall preparations for the summit. The organization of the communique's proposals was overseen by the National Security Council. It served as the secretariat for these initiatives. And EPA's role was to advance initiatives and to staff them out and do the analysis for many of them, and then, as I mentioned, finally to brief the President on them and to work with the White House staff.

Senator SARBANES. And was that your Office of International Activities that played that part in the preparations?

Mr. REILLY. The Office of International Activities played a key role, but our Office of Policy and Planning Evaluation did as well.

Senator SARBANES. Is EPA equipped organizationally and in terms of resources to handle this international environmental agenda?

Mr. REILLY. We have strengthened those two offices quite significantly in the past few months. We have, as you know, elevated the Associate Administrator for International Activities to a Presidential appointment and we hope and expect that he will be confirmed possibly later today, Timothy Atkinson. We also have expanded the staff. We are expecting to double that staff effectively within the next year.

The Office of Policy and Planning Evaluation which has had a major substantive role of pulling together policy initiatives within the agency affecting global climate issues and working with the IPCC, is also adding to its staffing and adding some key expertise, scientific and otherwise, to equip us better on this. We also expect that our Assistant Administrator for OPPE will be confirmed today. Both have had their hearings and are now pending confirmation.

I think that I would say for now these increases in resources and in effort within the agency do equip us to play a more substantial

role on some of these questions, and we are gearing up. So, we are not where we are going to want to be exactly at this moment, but I think we are going to get there in the near future, yes, sir.

Senator SARBANES. Now, when you define how you want to move on some of these environmental issues, to whom do you take that definition in order to have it become the policy of the U.S. Government?

Mr. REILLY. Well, it depends on the process that is set in motion. If the process is to prepare for a summit and a communique, we have worked very closely with the Secretary of State and the Under Secretary McCormack who was the——

Senator SARBANES. No, I'm beyond the communique now. I am talking about trying to implement some of the communique.

Mr. REILLY. Well, my practice has been to talk to the President about many of these issues and talk to the Chief of Staff.

Senator SARBANES. Now, assuming you can't talk to the President because he has to worry about a lot of things, who do you talk to?

Mr. REILLY. Well, it really depends on what the issue is, but I tend to see Governor Sununu probably three, four times a week and the Secretary of State a little less often. But we have sufficient interaction so that when we have an initiative, everybody is immediately made aware of it, and we are not shy about advancing it.

Senator SARBANES. Is there any interagency council or group that comes together to discuss these international environmental questions on a regular basis?

Mr. REILLY. On a regular basis? I suppose the answer to that is it has seemed so simply because in each case these initiatives have been prepared in preparation for a specific event or conference such as the summit or an IPCC meeting in Nairobi. The Domestic Policy Council has tended to vet some. The summit preparations were overseen by the National Security Council.

Senator SARBANES. I would ask you to give some thought to having an environmental policy council.

Mr. REILLY. All right. I would be glad to do that.

Senator SARBANES. I know you do not want to reach out and grab responsibility, but maybe you as EPA Administrator should chair. It would have members on it from State and Treasury and so forth and so on.

Let me follow up on that question. You made reference to going to this meeting in—was it the Netherlands I thought you said?

Mr. REILLY. Yes, sir.

Senator SARBANES. You said there would be some 70 other ministers there.

Mr. REILLY. That's right.

Senator SARBANES. Environmental ministers. You are not actually a minister.

In how many of the G–7 nations does the chief official for environmental affairs hold cabinet status? I think almost all of them, if I am correct.

Mr. REILLY. I think the French minister for the environment—he carries that title. He may not have Cabinet status, but the rest of them do, yes, sir.

Senator SARBANES. Do you think Cabinet status would strengthen your own position for dealing with global environmental issues?

Mr. REILLY. I have been treated like a Cabinet officer from the start in this administration. The President could not have been clearer that he takes the agency and me very seriously. I think I would rather have served a President who decided to take me to the summit without my being formally a member of the Cabinet than a President or a Prime Minister when I was in the Cabinet who did not choose to take me. So, I have no problem with my status, sir.

Senator SARBANES. The two are not mutually exclusive. It is possible to be a Cabinet minister and also go to the summit, I think. They do not preclude one another.

Do you ordinarily sit in on Cabinet meetings?

Mr. REILLY. I have sat in on all of them; yes, sir.

Senator SARBANES. You do. As a matter of course, do you?

Mr. REILLY. As a matter of course; yes.

Senator SARBANES. Let me ask you about the charge in the communique about strengthening the United Nations Environment Programme, UNEP. It says UNEP urgently requires strengthening and increased financial support. And then I think it went on to say some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering. I want to separate those two.

First of all, do you concur with the communique's comments with respect to the need to strengthen and increase the financing for UNEP?

Mr. REILLY. Yes, we do.

Senator SARBANES. Then I am puzzled as to why the administration's request for UNEP funding for fiscal year 1990 was $1.5 million below our contribution in fiscal year 1989. In 1989 we contributed $9.5 million, and the request by the administration for the coming fiscal year is $8 million. The communique has picked out this particular U.N. program for attention and focus and strengthening urgently. And there seems to be something of a contradiction there. I wonder if you could address that.

Mr. REILLY. We have supported the consensus and been part of it on a resolution calling for increased contributions to the environment fund recognizing the need to bring it to $100 million by 1992, which would involve a very substantial increase in support. Our own budget situation has precluded our doing a lot of things that we think make sense at this time.

And we do have a concern both with how a significant, new chunk of money and what it would be managed for at UNEP. We support the increase, the concept of increasing its financing.

Senator SARBANES. Now, this is not a significant, new chunk of money. I'm going to get to that in a minute because this committee in its markup has put a mark for UNEP of $17 million. Now, that's significant in the context of the UNEP. This is not a lot of money in the context of the Federal budget, but in the context of UNEP, that is a significant new chunk because we want to take it from $9.5 to $17 million.

I mean, I am not addressing a significant chunk of new money. I am not even addressing new money. I am addressing less money,

and I cannot square that. I do not see how we can place this emphasis on the UNEP and yet be confronted with a situation where the administration is seeking less money in the budget for next year than was available this year.

Mr. REILLY. We have under active consideration the general possibility of increasing our support for the United Nations Environment Programme. We very much recognize that a number of our hopes and plans for international cooperation are centered on UNEP. We have taken a very active, in fact, a leading role on the CFC phaseout issue in the Montreal protocol implementation. That is going to require funding of UNEP. Global climate will as well.

I am not in a position now to say where this consideration will lead or whether, in fact, it will lead to more funding for UNEP, but let me just say we recognize the need for more funding there.

Other countries have stepped up, and we support that, are pleased to see it, increased their contributions to UNEP within the past 6 months or so. The United Kingdom has doubled its contribution.

Senator SARBANES. Is it awkward to ask other countries to increase their contribution when we, in fact, are cutting ours?

Mr. REILLY. Well, it is a decision I think by and large they arrived at on their own without necessarily any close collaboration with us. They recognize, many of them, that we have a very difficult budget situation in the United States at this time, and have ambitions that exceed our resources.

Senator SARBANES. Are you telling me that congressional efforts to provide more money for UNEP are ill-advised? That we ought not to undertake that?

Mr. REILLY. Well, speaking for the administration, we do have budget request pending. And as I say, we are giving active consideration to UNEP's general needs. We want to look at a number of specific needs it is going to have. We have discussed the possibility of strengthening UNEP's capacity and resources perhaps institutionally on some of the issues that we give priority to, and I think we will be prepared to say more explicitly where that consideration leads in the future.

Senator SARBANES. What is the new institution that is worth considering within the United Nations?

Mr. REILLY. The French Government advanced at the Hague conference that was held earlier this year a proposal to establish a new institution with supranational environmental authority, possibly including regulatory authority for pollution control and the allocation of pollution rights, with an appeals process, an international court of justice kind of approach. That is the position I think of the French Government. The United States does not subscribe to that viewpoint, nor do all of the other countries that were represented in Paris. But that is the meaning of that reference in the communique.

We have felt very strongly that to begin talking about the establishment of a new institution at this time for managing our global climate problems, for example, would be a serious distraction from the effort going forward within the IPCC. If you were to establish such a new institution, one would presumably pose all of the same questions to it. What are likely to be the effects of climate change?

What does the science say? What should be the responses? What is the range of options? And there is no reason in our view to do this. This process is underway. It is leading to some conclusions. It is well mounted and professionally staffed, and we are committed to it.

Senator SARBANES. What are the items that you expect to move on in the next year with respect to this international environmental agenda?

Mr. REILLY. Well, two in particular. One, as you know, we have agreed to the Montreal protocol which entails a commitment by the parties that are signatory to it, have ratified it—I think now 41 in number—to phase out 50 percent of the chlorofluorocarbons by 1998. We are committed to seeking an increase in that commitment to 100 percent by the year 2000. That is the commitment that was made very clear at the Paris meeting. It had been previously agreed to in Helsinki.

That is I think our most immediate and urgent objective. It involves completing a process that we are already heavily involved with, and we would hope that by next spring when the meeting of the Montreal protocol parties takes place in London, we will be able to bring a substantial consensus of the CFC manufacturing countries to that point of view.

Senator SARBANES. What—sorry. Go ahead.

Mr. REILLY. I was going to say the second——

Senator SARBANES. No, then let me interject right at that point.

Take China, for example. I take it the view is if China refrigerates under the old technology, the CFC problem will multiply to such an extent that it will be insoluble. China, I gather, says, "Well, you did it that way. Now you want us to do it a different and more expensive way. If we are to do it the different more expensiveway, we should get compensated for the additional expense." Is that a fair statement of, if not their position, at least some expression of view on the part of the Chinese?

Mr. REILLY. Those kinds of views have been expressed. I am not sure what the current position of the Government of China is.

Senator SARBANES. What is your response to that?

Mr. REILLY. At the meeting on stratospheric ozone protection in London, I assembled a group of representatives of developing countries, including the Chinese Minister, and asked the question specifically of him, "Do you contest the science that has been presented here, a very impressive unanimity among the scientific community, about the severity of the problem of the Antarctic ozone hole and an increasingly serious problem in the Arctic as well?"

His answer was to say, "No, we do not contest the science. We have significant questions about it. We would like to take back this research and have it vetted and analyzed by our own scientific community, but we recognize this is very serious." They were not at that time prepared to make any commitments based on it.

I had the strong impression at that time that a number of the governments there were being exposed to the science in detail really for the first time, and were taking the scientific material back for further analysis by their governments and reconsidering their positions. In the case of some, that resulted in a commitment to fully phase out CFC's within a matter of weeks. They reported a

new position in Helsinki. That was true for the Soviet Union and it was true for Japan.

I would hope that to the extent that some of these countries—and there was talk of China bringing on 300 million refrigerators in the next I do not know how many years with CFC's. A prospect that Mrs. Thatcher addressed when she said one advantage that many countries have that have not yet made many of these choices about technologies is they can make them right the first time and presumably save themselves some expense. Now, the response is but these substitutes—we do not know whether we will have access to them. We do not know what they will cost. We are concerned, some of us, they said privately about the developed world getting a new technology, new inventions and deciding the old ones are no longer appropriate and selling the new stuff at a higher price to the rest of the world.

We have to be sensitive to that, and I rather expect that we are going to have to find some mechanism both for facilitating transfer of technology and for easing the economic burden associated with the transition. We have not faced that yet frankly. We do not know what the costs would be or what it would make sense to pay for.

I personally feel that it would be a big mistake to create a perception at the start that whether it is a CFC phaseout or an adaptation of global climate, developing countries need do only those things that the developed world is prepared to finance their doing. It is not a case, obviously, of one group of countries asking another group of countries to take some actions in order to benefit that former group. All of us in the world community are threatened by depletion of the upper atmospheric ozone and presumably by climate change.

We have got, however, to sort this out, and given that the United States is committed to a CFC phaseout through the Montreal protocol, given that we very much want to see the world community move on this together—and we really have to if this is to be a successful protocol—I think we will be prepared to consider our part in whatever mechanism is set up under the protocol to assist this transition.

Senator SARBANES. Thank you. I must say I think that is a very thoughtful answer. If you could go on to the second——

Mr. REILLY. Well, our second priority is going to be to review the materials being prepared and the research that is being done by the three principal panels under the Intergovernmental Panel on Climate Change; the Panel on Science, which is chaired by the United Kingdom; the Panel on Effects, which is chaired by the Soviet Union; and the Panel on Response Options and Strategies, chaired by the United States.

Senator SARBANES. What is the umbrella for those three panels?

Mr. REILLY. The Intergovernmental Panel on Climate Change. It is an enterprise that has been set up under the sponsorship of WMO and the United Nations Environment Programme, and it will next convene a plenary session in January in Washington at which time a number of these panels will report their conclusions with prepared papers. Those papers will then be compiled into a single conclusionary document of the IPCC that will be presented

to a final panel I think scheduled to meet in October, in the fall at any rate, of 1990.

Senator SARBANES. Obviously one way the United States can encourage the international sensitivity to the environment and the willingness to move ahead is to be unilaterally moving ahead itself on a range of environmental issues. Could you lay out that agenda for us?

Mr. REILLY. This response—when we talk about CFC's, I think the United States is well along to making the kinds of unilateral cuts that are called for. The automotive industry is committed to introducing in its 1994 models CFC-free air-conditioners. Automobile air-conditioners are a major source of CFC venting into the atmosphere from this country. So, that represents a significant improvement.

A number of private corporations, most recently just yesterday AT&T, have committed to full phaseout of CFC's. For a company like AT&T with a lot of computer facilities, a lot of electronic investments that are heavy users of CFC's, that represents a very important decision.

Some of our major chemical companies have gone quite far in developing substitutes for CFC's. Du Pont in particular has had a leading role in that, and they are confident that we are going to have these substitutes in time to keep to this very ambitious full phaseout commitment. So, I think the United States is well along toward meeting its obligations certainly under the Montreal protocol and even going well beyond that in keeping with the more recent agreement to full phaseout there.

As far as the reduction of greenhouse gas emissions is concerned, that is going to require attention to really all sectors of economic life and industrial activity. I do not think that as a society we have really begun to have the kind of debate on the practical implications of stabilizing and then finally moving to reduce greenhouse gas emissions. I would expect in the coming months that we will join that debate, and certainly the President wants to see us do that and wants to see the United States play a leading role in addressing these problems.

That is going to call for improvements in energy efficiency, for greater attention to forest conservation and to reforestation, for across-the-board analysis I think of waste and the degree to which this society generates much more of it than most other developed countries or at least in many other developed countries, all of these measures I think of inefficient use of resources on which we can make substantial progress.

Senator SARBANES. What is going to be our response when other countries say you use far more energy per capita than any other country in the world and what are you doing about that?

Mr. REILLY. We are hearing that question, and we are hearing also, particularly from the Brazilians—I heard most recently from the Brazilian environment minister concerns about the way the United States has itself deforested much of the areas that formerly were forested.

We clearly have to have our own house in order I think to play the kind of role that we aspire to play on many of these issues. We have I believe a very strong domestic environmental record in this

country. The President is committing to strengthening that record, and the best evidence of that is his performance in the first 6 months, of which the Clean Air Act proposal is the most notable achievement.

This issue—if I might take a minute—I think it is going to be a very difficult one—the greenhouse gas issue. We have heard from countries like Japan, for example, that they are concerned lest the world community move forward toward a percentage reduction requirement in greenhouse gas emissions and particularly in CO_2. Were that to happen, as was put to me by the Japanese Minister earlier in the year, the countries that are very energy efficient like Japan would be very quickly down to the bone and perhaps into it, whereas those countries that are less efficient in energy use could make such a reduction presumably more easily with less economic dislocation.

The obverse concern of that that exists in some other countries and many quarters I think of this Government, the Government of the United States, that any kind of agreement that is reached that does not recognize the fact of the way we are urbanized across the landscape in a highly decentralized way with a dependency on the automobile that exceeds that of smaller, denser countries would disproportionately impact on our economic competitiveness and performance. And Canada, Australia, the United States, some other countries are in that situation.

If you see that as the point of potential division between the countries of the developed world, and you realize that that is going to require a lot of effort and thought to resolve imaginatively, that I think is only a small task compared to the difficulty of moving in the developing countries to reduce greenhouse gas emissions, deforestation and some of the other problems that contribute to this issue there. It is clearly going to involve the most intense effort of some of the best minds we have over the years ahead to get a grip on this problem. We are talking, after all, about combustion. It is the basis for industrial life and activity, for cooking, for virtually all human organization and civilization. So, it is going to require a great deal of effort and no doubt some imagination and sacrifice.

Senator SARBANES. It seems to me that the administration ought to be considering some steps to take on the energy efficiency front or, more broadly speaking, even an energy plan, an energy policy, that send the very clear message that we are making efforts to get our house in order. It seems to me the extent of our use is such that there are things we could do to address that and do it fairly immediately before we get into the range where we have to argue, well, we have a different urban configuration, a different transportation which makes it more difficult. I mean, at the moment we are beyond that, it seems to me, and we ought to be considering how to do at least some things that have a very visible demonstration of our bona fides.

That is a vote. I know your time is running. So, I am just going to put a couple more questions.

Mr. REILLY. Let me just say that apropos of that, the United States has a couple of documents that I think go farther than those I have seen from any other country in considering the practical possibilities available to us to respond to global warming.

One is the stabilization report that EPA has developed and is going to be released this summer. It sets out a range of potential, all hypothetical, options to improve energy efficiency and to reduce greenhouse gas emissions.

We are taking action. I think the clean coal technology is one example of a major administration commitment that, if successful, would offer us the prospect of 30- to 50-percent increases in efficiency of coal combustion with very substantial advantages for CO_2 releases. We will be looking ahead to other opportunities of this sort. And I have had a number of conversations with Secretary Watkins who I know is himself both informed about and very concerned about adapting energy policy to reduce greenhouse gas emissions.

Senator SARBANES. This may not be a large substantive issue, but I think at the psychological level it is a large issue. What is your view of the barges that head out of the United States loaded with waste, shopping for a place around the world to dispose of it?

Mr. REILLY. Well, if they are doing it from the United States now—you are talking about hazardous waste in particular?

Senator SARBANES. Well, not necessarily hazardous.

Mr. REILLY. Just waste of any sort?

Senator SARBANES. Yes.

Mr. REILLY. We have given particular attention to the hazardous waste issue and taken a lead in this country in requiring prior informed consent on the part of a receiving government and do not allow that stuff to be shipped unless we have the documents that certify that has been present. Earlier this year, the President went beyond that and announced intentions to submit legislative proposals to forbid the export of hazardous waste to any country with which we do not first have a bilateral that assures about how that waste is to be managed and disposed of.

Senator SARBANES. It is not clear to me why we should not be disposing of our own waste here and not exporting it, hazardous or not. It seems to me that to the extent we export, we leave ourselves wide open for criticism of dumping on others. I wish you would give some thought to that.

Mr. REILLY. All right, sir.

Senator SARBANES. The final question I want to put is this: some have criticized the summit environmental statement for failing to address the population question, which is seen as a very integral part of the stress that is taking place on the environment. What is your response to that?

Mr. REILLY. Well, I think that population obviously plays a central role in managing the environment, and excessive population growth has severely exacerbated the prospects for any number of developing countries to get a grip on their environment and improve their economic situation as well.

There is some reluctance on the part I think of a community of developed countries to point the finger at the developing world. The developed countries represented in Paris have either stable or very modestly increasing populations, and to the extent that that is true, I think probably felt it would not be productive to draw attention to developing country needs in that area.

Senator SARBANES. That is a matter of the sensitivity of their feelings, but I take it from what you are saying, you recognize the importance of the issue——

Mr. REILLY. I do, yes, indeed.

Senator SARBANES [continuing]. And the need to address it, I take it, in some concrete ways. I hope that is reflected in the administration budget requests.

There is some suggestion that national income accounts—how they are kept—need to be changed to reflect an important environmental dimension. Do you have a position on that?

Mr. REILLY. I think that the work that has been undertaken at the World Resources Institute on that has been first rate. We have long needed some practical system for allowing professional economists to acknowledge what everyone else knows is true, and that is that the basis for economic activity for really all human activity is healthy, functioning natural systems. And as those systems are played out, to record their destruction as contributions to gross national product is ludicrous.

We have a long way to go in gaining both mastery of the techniques and then finally acceptance in the professional economic community of those concepts, but I think that they are very, very important to do.

Senator SARBANES. Well, Mr. Administrator, we very much appreciate your testimony this morning. We look forward to having you back with us on future occasions. And I must say it seems to me that if there is anyone who is going to be put to the test, it is going to be you because the next summit is now some 11 months away from us. It is going to be here in the United States. And I think that the world community is going to be looking to see how the environmental part of that communique—the extent to which there has been delivery on those undertakings. So, in that regard, we wish you well.

The committee will stand in recess because of the vote, and then we will return and hear from Frederick Bernthal, the Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs.

We thank Administrator Reilly.

Mr. REILLY. Thank you, sir.

[A brief recess was taken.]

Senator SARBANES. The subcommittee will resume.

We will now hear from the Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs, Frederick Bernthal. Mr. Bernthal, we would be happy to hear from you.

STATEMENT OF HON. FREDERICK M. BERNTHAL, ASSISTANT SECRETARY OF STATE FOR OCEANS AND INTERNATIONAL ENVIRONMENTAL AND SCIENTIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. BERNTHAL. Thank you, Mr. Chairman. Mr. Chairman, I am going to give quite an abbreviated version of my testimony because of the rather comprehensive statement that Mr. Reilly has already presented on a number of these issues.

As we have heard here already this morning, international environmental issues were, indeed, given unprecedented attention by the summit seven, and they stressed basically global warming, depletion of the ozone layer, deforestation, and ocean pollution as major issues. The "economic declaration"—and I say that in quotes—of the Paris summit reflects President Bush's resolve and that of the other leaders to address effectively the serious environment issues we face today.

There were a number of commitments made in the communique for specific actions in the field, and you have already focused on the question of some of the specific domestic actions that we envision as followup. Those commitments that were made there are important and historic, but needless to say, as you have pinpointed, what really will matter is how well we and other governments now follow through. And I should note that that process has begun within our Government through the National Security Council Policy Coordinating Committee which I chair within the State Department and through which we will be carrying out extensive interagency coordination on these issues.

The administration is also well along in its efforts to address summit commitments to protect the stratospheric ozone layer. As you know, President Bush already expressed his support for a complete phaseout of CFC's in this country by the year 2000 assuming that safe substitutes can be found.

While EPA is actively promoting the development and use of substitute products, we are already sponsoring through the State Department and other Departments technical missions and seeking multilateral development bank or U.N. development program funding to help key developing countries such as China and India shift to technologies that do not contribute to ozone depletion.

Efforts to protect temperate forests, lakes, and rivers from acid pollutants are also moving forward. The President's proposed amendments to the Clean Air Act, if enacted, will materially reduce our emissions of acid rain precursors, as you know. And this step will, of course, have most positive effects at home and in Canada which has long pressed for an air quality accord with targets and timetables for emissions reductions, and our initial discussions with Canada, I am pleased to report, Mr. Chairman, have already begun on this subject.

Multilateral development banks can play a vital role in environmentally related lending and debt-for-nature swaps. We are working closely with the Treasury Department on this front. To promote further World Bank involvement, Treasury has suggested that a portion of the World Bank environmental loans be used for debt-for-nature swaps. That is a concept, as I think you know, that Secretary Baker has long supported from the time he was at Treasury—debt-for-nature swaps—and he has also supported generally a strengthening of the World Bank work on the environment. So, meanwhile we are continuing to support the efforts which are also going on in the private sector in promoting debt-for-nature swaps.

Tropical deforestation, an important contributor to atmospheric carbon dioxide accumulation, loss of biological diversity, and degradation of soils and watersheds is also very high on President Bush's environmental agenda.

The two primary international mechanisms for addressing the tropical forestry issues are the International Tropical Timber Organization, the ITTO, and the Tropical Forest Action Plan. The promise of the Group of Seven to assist these two organizations financially and technically is a logical outgrowth of the tasks that are facing those two organizations and is indicative of the respect that ITTO and the TFAP now command in international circles. If we are to have a full voice, however, in how ITTO and TFAP use the resources at their disposal, we will have to pay our way and bring ourselves up to date in this country on membership arrearages to the ITTO and the FAO which coordinates TFAP implementation.

Senator, I must note that President Bush's environmental initiatives for Eastern Europe also received strong support at the summit. The administration is now developing specific projects for Poland and Hungary, including the establishment of an environment center for Central and Eastern Europe to develop the human resource base for regional environmental improvement activities. This center is to be located in Budapest, as you may know, and my Deputy for Science and Technology Affairs, Ambassador Peter DeVos, is in Budapest as we speak here to follow up on that commitment.

Finally, Mr. Chairman, a central environmental theme at the summit, as it has been elsewhere, was increasing worldwide concern over global climate change. The approach outlined by President Bush last May on this issue was, in effect, endorsed by other world leaders at the summit. The summit declaration reflects the President's determination that the Intergovernmental Panel on Climate Change be the principal international forum to address that issue. It lent strong support to the work of the IPCC and its three working groups in assessing the state of the science, the impacts of global climate change, and the range of possible options for responding.

Several of the specific response strategies mentioned in the communique, improvements in energy efficiency, sustainable forest management, the development and transfer of technologies that could reduce greenhouse gas emissions, are already being discussed in subgroups of the U.S.-chaired Response Strategies Working Group, which we somewhat inelegantly refer to as RSWG. An interim report of the IPCC incorporating the work of all three of its working groups, science, impacts, and response strategies, will be completed before the Second World Climate Conference in the fall of next year. As noted in President Bush's statement of May 12, we expect that these efforts within RSWG and the IPCC will lead to formal international negotiations on a framework or umbrella convention on climate.

The IPCC working group on response strategies, which I chair, is already considering possible elements of a framework convention. In fact, this will be one of the major response strategy so-called implementation issues to be discussed at the third meeting of this working group from October 2 to 6 in Geneva.

Finally, Mr. Chairman, I just want to reinforce one point that I know has already been discussed here somewhat in Mr. Reilly's commentary. A central theme that has been replayed at every one of the five international meetings on the environment this spring,

to which I have headed U.S. delegations, has been the need to involve developing countries in the two truly global environmental issues of our time: implementation of the Montreal protocol and addressing the issue of global climate change.

The United States has a commitment under the terms of the protocol to assist in technology transfer, and we will honor that commitment.

As for climate change, I offer a quotation and a statistic to make my point. In the May Response Strategies Working Group in Geneva, one developing country representative was quite blunt. He said—and the quote may be a little inexact, but I will reproduce it as best I can—"You can write a climate convention, speaking to the Europeans, the United States, the developed countries, but for us it is irrelevant until other issues, technology transfer, financial assistance, public education, are addressed first." That is the quote, and I would also like to offer a statistic in regard to climate change.

By the year 2000, China now plans to double its use of coal. India plans a tripling of its use of coal. If that occurs by the year 2000, 10 years away, coal use in just India and China combined will exceed that in all of the OECD countries put together, including the United States, of course.

So, Mr. Chairman, I will close my remarks with that. I appreciate this opportunity to review some of these issues with you, the progress that was made during the summit and further steps that are being taken to implement these important initiatives. And I would be pleased to answer any questions.

[The prepared statement of Mr. Bernthal follows:]

STATEMENT OF FREDERICK M. BERNTHAL, ASSISTANT SECRETARY FOR OCEANS AND INTERNATIONAL ENVIRONMENTAL AND SCIENTIFIC AFFAIRS

It is a pleasure to be here this morning to discuss the results of the recent Paris Economic Summit as they relate to global environmental issues. As you are aware, the global environment was given unprecedented attention by the Summit Seven. In their "economic declaration," the summit leaders stressed the importance of protecting the environment and increasing international cooperation on pressing environmental concerns. Including global warming, depletion of the ozone layer, deforestation and ocean pollution. President Bush's leadership was key to the attention given by the summit to environmental issues.

The "economic declaration" of the Paris Summit reflects the President's resolve, and that of other leaders present. To address effectively the serious environmental issues we face today. The declaration calls for "decisive action" to understand and protect the Earth's ecological balance in order to meet economic and social objectives, and to carry out obligations to future generations. It also emphasizes the urgent need to give further impetus to scientific research and to development of technologies for addressing environmental problems.

The summit communique contains a number of specific commitments for actions in this field. These include actions to: promote the development and use of suitable substitutes for ozone depleting substances and consider extending the Montreal protocol to certain substances not now covered; provide for the adoption of sustainable forest management practices, and encourage through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities; encourage the World Bank and regional development banks to integrate environmental considerations into their activities and, in special circumstances, to consider the role in environmental protection of official development assistance debt foregiveness and debt for nature swaps; pursue bilateral and multilateral efforts to protect temperate forests, lakes, and rivers against the effects of acid pollutants; call on the relevant bodies of the United Nations to prepare a report on the state of the world's oceans, and to ask all countries

to adhere to the implement fully the international conventions for the prevention of oil pollution of the oceans; urge international organizations concerned to encourage measures to improve energy conservation and efficiency in the use of energy; expand common efforts to limit emissions of carbon dioxide and other gases which may contribute to climate change, and strengthen the worldwide network of observatories for greenhouse gases; conclude a framework or umbrella convention on climate change setting out general principles or guidelines in order to mobilize and rationalize the efforts made by the international community, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings; and enhance international cooperation in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

The foregoing commitments are important and historic, but their true significance will be determined by how we and other governments follow up.

The administration is well along in its efforts to address summit commitments to protect the stratospheric ozone layer. As you know, President Bush has already expressed his support for a complete CFC phase out by the year 2000 within the context of an international agreement, assuming that safe substitutes can be found. The EPA is actively promoting the development and use of substitute proejcts, in cooperation with CFC producers and users. EPA is also conducting extensive research and analysis on adding carbon tetrachloride and methyl chloroform to the list of controlled ozone-depleting substances under the Montreal protocol. We are already sponsoring technical missions and seeking MDB or UNDP funding to help key developing countries such as China and India shift to technologies that do not contribute to ozone depletion.

Tropical deforestation, an important contributor to atmospheric carbon dioxide accumulation, loss of biological diversity,and degredation of soils and watersheds, is also high on the administraton environmental agenda. To halt deforestation is essential; to reverse the trend through active support of reforestation efforts is even better. To that end, the administration is considering a variety of domestic measures, including planting trees in urban areas, on conservation set-aside lands, and along railroad right-of-ways. In joining other western leaders in the Paris Summit declaration, President Bush expressed our firm belief that the need to sustain the global environment challenges the entire community of nations to joint effort.

The two primary mechanisms for coordinating international efforts to address tropical forestry issues are the International Tropical Timber Organization (ITTO), and the Tropical Forest Action Plan (TFAP). The promise of the G–7 to assist these two organizations financially and technically is a logical outgrowth of the tasks facing them, and on the respect ITTO and the TFAP now command in international circles. We are now in the early stages of considering our options with regard to future support for forest activities supported by the ITTO and the TFAP. As you know, in recent years the ongoing budget crises has precluded the U.S. from paying our full share of membership fees to the FAO, which oversees TFAP operations, and to the ITTO. Recognizing that immediate action is required to reverse the current deforestation trend if we are to avoid serious consequences, the administration continues to work toward paying its arrearages to these organizations. It is also necessary that these arrearages be paid if we are to have a full voice in how the ITTO and TFAP use the resources at their disposal.

We are also working closely with the Treasury Department on the role of the multilateral development banks in supporting environmentally related lending. At the recent Economic Summit, the G–7 encouraged the World Bank and the regional development banks to integrate environmental considerations into their activities. Further, debt for nature swaps were identified as useful tools for accomplishing environmental aims in special cases.

To help promote further World Bank involvement in this area, the Treasury Department has suggested that a portion of World Bank environmental loans could be used for debt-for-nature swaps. Secretary Baker supports such efforts to encourage debt-for-nature swaps and to strengthen World Bank work on the environment. While debt-for-nature programs are not a substitute for basic economic policy reform, such loans could be used to support elimination of subsidies, land tenure rules, and other measures contributing to environmental degradation while at the same time conplementing other debt-relief measures. Meanwhile, we continue to support the efforts of the private sector in promoting debt-for-nature swaps.

With regard to protection of temperate forests, lakes, and rivers from acid pollutants, the President's proposed amendments to the Clean Air Act, if enacted, will materially reduce our emissions of acid rain precursors. This step will have positive effects at home and in Canada, which has long pressed for an air quality accord

with targets and timetables for emissions reductions. The administration's proposal would significantly reduce acid deposition precursor emissions by the year 2000.

We fully endorse the Summit call on relevant bodies of the United Nations to prepare a report on the state of the world's oceans. We will press for the International Maritime Organization (IMO), the World Meteorological Organization and the United Nations Environment Program to establish a joint task force to prepare such a report before the 1990 U.S. Economic Summit. We are also reviewing existing conventions related to oil spills and working on proposals for enhanced oil spill prevention and for improved worldwide capability to respond to such spills.

Another key theme in the summit declaration is the necessity or recognizing the interests and needs of developing countries. Participation by LDC's in the Montreal Protocol and in discussions on climate change is vital for a worldwide effort to address these pressing concerns. In addition to activities noted above, the EPA and AID are assisting these countries in environmental monitoring and in developing strategies for sustainable growth which maintain the environmental and natural resource base.

With regard to the important worldwide concern over global climate change, it is noteworthy that the course of action outlined by President Bush last May on this issue was endorsed by the other world leaders at the summit. The summit declaration reflects his determination that the Intergovernmental Panel on Climate Change (IPCC) should become the principal international forum for developing an international strategy to address climate change. It lends strong support to the work of the ICPP and its three working groups—on science, impacts, and response strategies—in assessing the state of the science; the likely social and economic impacts of a change in global climate; and the range of possible options for responding to any such change.

The IPCC's working group on response strategies, which the United States chairs, is already considering possible elements of a framework convention. This will be one of the major issues on implementing response strategies to be discussed at the third meeting of this working group, which I chair, from October 2–6, in Geneva.

Several of the specific response strategies mentioned in the communique, such as improvements in energy efficiency, sustainable forest management, and the development and transfer of technologies that could minimize or reduce greenhouse gas emissions are already being discussed in subgroups of the working group. An interim report of the IPCC, incorporating the work of all three IPCC working groups, will be completed before the Second World Climate Conference in the fall of 1990. As noted in President Bush's statement of May 12, we expect that these efforts will lead to the initiation of formal international negotiations on a framework or umbrella convention on climate.

In addition, increased scientific research on global climate change and enhanced monitoring efforts are essential to an adequate scientific understanding of this complex issue. Besides consideration of such issues in the IPCC context, the National Oceanic and Atmospheric Administration is giving strong support to the WMO Climate Reference Network, and is contributing U.S. data to the project. The administration's strategy for global change research, which was prepared by the Committee on Earth Sciences and accompanied the President's 1990 budget message, should also greatly assist this effort. With regard to energy related issues, while we work within international organizations such as the International Energy Agency to promote increases energy efficiency to help reduce greenhouse gas emissions, the Department of Energy's national energy plan will be cognizant of climate change concerns and of the summit commitment to increased energy efficiency and safe nuclear power.

Mr. Chairman, President Bush's initiatives for Eastern Europe received strong support at the summit and will materially help to safeguard the resources and environment of that region. The administration is now developing four environmental projects for Poland and Hungary. In Poland, we are concentrating on clean coal technology transfer, and air quality monitoring network, and a water quality program for the city of Krakow, which has some of the worst air and water pollution levels in Europe.

In Hungary, we will establish an environmental center for Central and Eastern Europe to develop the human resource base for regional environmental improvement activities. This center will be located in Budapest, and my deputy for science and technology affairs, Ambassador Peter DeVos, is in Budapest this week to follow-up on that commitment.

Mr. Chairman, implementation of the summit initiatives I have described today will have budget implications for the G–7 governments and the involved international organizations. To make a meaningful start on programs to encourage adop-

tion of safe substitutes for CFC's in developing countries, to support programs aimed at arresting deforestation, and systematically to monitor the oceans, will require reprogramming of budgetary resources. Research to understand climate change and assessment of response strategies must also be supported effectively.

In conclusion, Mr. Chairman, the Paris economic summit marks an important milestone in international environmental cooperation. The leadership of President Bush on these issues was key to the successful outcome of the summit and its unprecedented emphasis on the environment. I appreciate this opportunity to review with you the progress which was made during the summit on environmental issues and look forward to working with you on implementation of these important initiatives.

Senator SARBANES. Well, thank you very much, Mr. Bernthal.

First of all, are you the responsible person in the Department of State for the environmental issues flowing out of the summit—other than the Secretary of State who I understand is responsible for everything?

Mr. BERNTHAL. Yes, sir, I am.

As Mr. Reilly indicated, immediately following the summit, Under Secretary McCormack held an interagency meeting at which a variety of implementation steps, very specifically I should say, paragraph by paragraph taken from the summit communique, were discussed and the action now flows to my bureau and more specifically to the NSC Policy Coordinating Committee on Environmental Issues, which I chair. And we will soon be convening interagency meetings to determine exactly what elements of the action plan will be assigned to each agency.

Senator SARBANES. You may be anticipating my next question. Who do you consider the responsible person Governmentwide to be for following through on the environmental portion of the summit agenda—other than the President of the United States who I understand is the responsible person for everything?

Mr. BERNTHAL. I do not think I can point to a single responsible person. My responsibility and the responsibility of the Secretary of State, Senator, is statutory, and it is the coordination of foreign policy, as I think you know, in a variety of areas, including environmental areas. That means that it is my task to carry out, as we will through the PCC structure, interagency coordination of these issues.

Now, having told you that, I have to emphasize that it is absolutely essential that EPA, for example, DOE in respect to energy-related issues, NOAA and a variety of other agencies exercise a key role here. I do not have even 20 people in my environmental shop. I guess I do have 20 people, but I certainly do not have 40 which EPA, for example, is expecting to have just in its international shop soon.

So, our role is a coordinating one. Our role is representation in international forums and carrying out international negotiations. I think that is the best way I can define for you——

Senator SARBANES. What is the name of the NSC committee that you chair, this coordinating committee?

Mr. BERNTHAL. That is called the National Security Council OES Policy Coordinating Committee—OES, oceans, environment and science, referring to the functions of my Bureau.

Senator SARBANES. And who serves on that coordinating committee?

Mr. BERNTHAL. A wide variety of agencies. Anybody that has any interest; for example, in environmental issues will, first of all, be invited and expected to attend working group meetings on the environmental issues. If we are unable to reach an interagency consensus on any given issue, then it goes to the policy level of the full policy coordinating committee and thence on into the White House and ultimately to the President.

Senator SARBANES. That committee was in existence before the summit, I take it.

Mr. BERNTHAL. Yes, it was. In fact, if I may say so, that policy coordinating committee worked very closely with all of the agencies in preparing the papers which Ambassador McCormack ultimately used in his sherpa efforts.

Senator SARBANES. Since the summit, has it been given the responsibility for the summit's environmental communique, for carrying that out?

Mr. BERNTHAL. Yes, sir. Through Under Secretary McCormack, the sherpa, and now down to my Bureau and ultimately the PCC.

Senator SARBANES. Who serves on that committee, say, from EPA?

Mr. BERNTHAL. The individual from EPA will vary with topic. Certainly the Assistant Administrator for International Affairs, or the acting in this case, has been extremely active and a number of others have from time to time. For example, if we are considering following up on the Montreal protocol, obviously there are individuals who are expert in that area from EPA that would undoubtedly attend the working group meetings.

Senator SARBANES. But you are the Chair and I take it the Assistant Administrator for International Affairs from EPA is a member.

Mr. BERNTHAL. That's right.

Senator SARBANES. And then there would be members from how many other agencies?

Mr. BERNTHAL. I should not leave the impression that we appoint either an office head or an individual to be an agency's representative. I do not make that determination. That is the job of EPA or DOE or the other involved agencies. We simply ask for a policy-level individual that they wish to represent their agency on the policy coordinating committee.

Senator SARBANES. Well, you are always there.

Mr. BERNTHAL. I'm always there; yes.

Senator SARBANES. Do other agencies have someone who is always there, recognizing they may also draw in other people who have expertise on a specific issue?

Mr. BERNTHAL. The pattern has been that the Assistant Secretary or Assistant Administrator, in the case of EPA, for International Affairs would typically represent their agency and then, of course, go back and coordinate.

Senator SARBANES. Could you submit a memo to us about the committee, and how it works, who its membership is and so forth?

Mr. BERNTHAL. I would be happy to do that.

Senator SARBANES. That would be very helpful.

You say on page 8 of your statement that "To have a meaningful start on programs to encourage adoption of safe substitutes for

CFC's in developing countries, to support programs aimed at arresting deforestation, and systematically to monitor the oceans will require reprogramming of budgetary resources." Have you developed a reprogramming request, and how and when will that be done?

Mr. BERNTHAL. Well, we certainly are now in the process, in fact, of developing the budget for next year. And we are also discussing how to meet our commitments this year. As you know, I cannot discuss the details of our budget submittals and discussions at this point within the administration. But the short answer is "Yes." That process of——

Senator SARBANES. So, you are working on a reprogramming request for the current fiscal year?

Mr. BERNTHAL. There is consideration of that being given, and I do not know exactly what details are being worked out there within OMB at the moment.

But let me comment that after we make our recommendations and requests, the process here is that it goes through international organizations for all international organizations, as the name implies, especially notably U.N. organizations, and thence through the central budget process at the State Department and OMB.

Senator SARBANES. Do you find it awkward that the summit should have put the spotlight on the U.N. Environmental Programme as the place for focus and while United States is reducing its contribution to that particular agency?

Mr. BERNTHAL. No, I do not find that awkward at all. In fact, the United States supported the call at the United Nations Governing Council meeting in May, which I attended, for increased support and funding for UNEP, but as you know, Senator, we are under very severe budget constraints in our country.

The call was for an increase to $100 million I believe it was by 1992 or 1995. I have forgotten the exact date. That would imply a much larger commitment from the United States than we have had. We have increased our request to the Congress I think 3 years running.

Senator SARBANES. For UNEP?

Mr. BERNTHAL. However, the increase, commenting on the earlier discussion here, last year was not over the appropriated amount of the Congress. I do not want to put too fine a point on it, but there was an increase in the Presidential request 2 years in a row. And, of course, this year's request for next year's budget is in process.

Senator SARBANES. I do not understand what that means.

Mr. BERNTHAL. The President did not cut his request over the President's previous request, but Congress appropriated more money.

Senator SARBANES. What was the President's previous request?

Mr. BERNTHAL. I am not sure I have those exact numbers. Maybe I can ask one of my staff here, but it seems to me we moved from $6.5 to $8.5 million or something, and Congress appropriated more. Don't hold me to the numbers.

Senator SARBANES. And how much did UNEP get?

Mr. BERNTHAL. They ended up getting, of course, what Congress appropriated.

Senator SARBANES. Which was what?

Mr. BERNTHAL. The number around $8 million sticks in my mind, but let me see. It was $11 million. Sorry—$8 million must have been our request.

Senator SARBANES. So, what you say to UNEP is that the United States is going to give you less money than it gave you this year for your programs, but we asked for more than the previous President had asked for. Is that essentially how you handle that?

Mr. BERNTHAL. Those are the facts; yes. Those are the facts of what has transpired.

Senator SARBANES. I find it very difficult to accept the assertion that you can make a big call for increased resources for the UNEP while giving them less than you gave them the year before and not be embarrassed by that.

Mr. BERNTHAL. Well, these events, of course——

Senator SARBANES. Do you just keep a straight face in front of the other delegates when you make a big call for more money and then say, but by the way, we are not going to give you next year even as much as we provided this year? You do not have any difficulty with that?

Mr. BERNTHAL. This meeting and these events, of course, took place, as did the summit, after the submittal of the budget. As you know, this was President Bush's first budget.

I am told, in fact, that the appropriated amount was $9.5 million and that the budget request was $8 million I believe. I want to get the numbers straight here.

But then we did go to the governing council meeting, and in my statement I made very clear that we were under serious budget constraints. And those are problems that OMB and the President are going to have to deal with, and we have to establish priorities. And, of course, I——

Senator SARBANES. And everyone took you very seriously as you called for more money, but weren't going to give any yourself. Is that right?

Mr. BERNTHAL. Well, this was a call by the entire body for more funding.

Senator SARBANES. Which you participated in.

Mr. BERNTHAL. Which we participated in and which we pointed out our budgetary difficulties, but endorsed the principle of more funding for UNEP and further support for UNEP.

I should say that aside from money—and, of course, we should not underestimate the importance of money in strengthening UNEP—there are other ways in which UNEP needs to be strengthened. They are going to have a great task before them not only in carrying out the international monitoring activities, the more routine things to which they are already committed, but as an administrative matter preparing for what appear now to be international negotiations on a climate change convention to begin late in 1990 or early 1991. So, the money, of course, is terribly important, but also very important is the endorsement of UNEP's mission and the agreement that we got from the summit to try and promote and strengthen UNEP.

Senator SARBANES. Can it carry out that broader mission without additional resources?

Mr. BERNTHAL. I think there is no question UNEP is going to need additional resources to carry out its mission.

Senator SARBANES. The summit communique said in paragraph 40, "We strongly advocate common efforts to limit emissions of carbon dioxide and other greenhouse gases which threaten to induce climate change endangering the environment and ultimately the economy." What are the implications of that sentence for policy in the United States?

Mr. BERNTHAL. Well, the implications are that it is my understanding the Department of Energy, for example, to the extent that this is an energy issue—and it is substantially an energy issue—is developing an energy plan, as you know. I do not know what the exact timetable that Admiral Watkins has for that plan. I believe they expect to have it within the next 18 months or thereabouts. I do not want to volunteer them for a completion date on their project.

The point I want to make, though, is that it is now a generally recognized policy within our Government that such a plan will be cognizant of the potential for global warming that exists from accumulation of CO_2. That is on the energy and combustion side.

In addition to that, I go back to Secretary Baker's opening statement in a public forum as Secretary of State where he noted that there are three areas at least in which we should move forward immediately before we begin to address the difficult issue of perhaps whether or not CO_2 emissions per se need to be addressed in a more aggressive way. One of those is energy efficiency, and that has the effect of limiting CO_2 emissions.

Another is preventing deforestation which now accounts for about 25 percent of the CO_2 problem worldwide, and promoting reforestation which has the potential for at least delaying the onset of the CO_2 induced part of the possible global warming picture.

And the third one, of course, we are proceeding with under the Montreal protocol. About 20 percent of the problem is attributable to CFC's. We have, as you know—I do not need to go through that again—a very active and aggressive program in this country to see to it that they are phased out by the year 2000.

Senator SARBANES. All of that sounds all right, but let me ask you this question. It is my understanding that the U.S. percentage share of the CO_2 emissions of the G–7 countries is increasing. Is that correct?

Mr. BERNTHAL. I'm not sure I know the answer to that. I would not be terribly surprised because we are a growing country and a growing economy. That may be correct.

Senator SARBANES. That is not going to work. Look. You have seven countries now that have just made this statement about common efforts to limit emissions of carbon dioxide. If the other G–7 countries are doing a better job of it than we are, which apparently they are, then our proportion of the contribution to this problem—I am not sure "contribution" is the right word—our proportion of this problem is going to rise. So, you are going to end up with the United States being an even bigger bad actor within this context. That, it seems to me, is going to affect our credibility on environmental matters. It underscores the urgency of this problem and of our doing something.

Mr. BERNTHAL. Well, there is no question that leadership is terribly important in this arena. And from where we sit today, it is simply not the case that any of the G–7 has begun a program and is ahead of the pack in reducing emissions. This is a question of growth up to date, and it may well be the United States—because of the increased reliance we placed on coal electricity generation and the continued high and heavy reliance we place on fossil fuels generally, that may well be a correct statement.

Senator SARBANES. The summit is going to be here next year, and it seems to me that we are in an awkward position if we come to the summit with a rising line indicating how much the United States contributes to the CO_2 problem. I do not think you would send the President into the summit with very clean hands under that circumstance. And it seems to me it needs to be addressed on something of an urgent basis.

Mr. BERNTHAL. The steps that we are taking I can say with some confidence will send the President to the next economic summit in this country in a very good position.

Senator SARBANES. Well, let me ask on that score. In paragraph 45 of the communique, the G–7 leaders say, "We believe that the conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to m[illegible]ze and rationalize the efforts made by the international comm[illegible]ty." And they reference the work of the United Nations Environment Programme.

What is the timeframe for that framework or umbrella convention?

Mr. BERNTHAL. The work of the IPCC is one of the driving forces here. The Response Strategies Working Group that I chair is preparing for discussions in October of this year on the elements that might go into a framework convention. The outcome of our work will be incorporated into an interim report of the IPCC plenary to the Second World Climate Conference in late 1990, and President Bush has already indicated that we expect that negotiations on a framework convention will begin shortly thereafter.

Senator SARBANES. Shortly after when?

Mr. BERNTHAL. This would be late 1990, late next year.

Senator SARBANES. That is when they will begin.

Mr. BERNTHAL. Begin, yes.

Senator SARBANES. When will they conclude?

Mr. BERNTHAL. I am afraid cannot predict that. That depends on how well things go.

Senator SARBANES. It does not sound much like urgency to me, just listening to it here.

Mr. BERNTHAL. Well, it is difficult for me to——

Senator SARBANES. They're difficult problems. But you are not going to begin it until the end of next year, and then I am being told who knows when it will conclude. Yet, the communique is written in terms of a crisis. Things have to be done. The leaders are all focusing on this. We have to move on this and so forth and so on.

I think that if we do not get a more concrete program for moving on some of these things, both in terms of unilateral things the United States can do and also pushing harder the international

agenda, all of these words will be thrown right back in the teeth of the summit leaders—and ought to be thrown back in. And you may not feel it now, but I can guarantee you it will happen. I am only trying to help you here by creating some antennae. I can guarantee you that a month before the next summit, when the President and his close associates start focusing on going to that summit, some of what I am telling you, if you have not moved on it, is going to come back to haunt you.

You are one of the responsible people. I do not know that you are the sole responsible person, but you are clearly one of the responsible persons and, in fact, have sort of acceded to that or in some sense even welcomed it, which is good. People ought to take responsibility. That is your job.

But I can tell you that if you are not moving on some of these things, a month before that summit, they are going to be beating on your door wanting to know why they do not have something more concrete they can put on the summit table.

Mr. BERNTHAL. Well, you are absolutely right. And I can assure you we have a rather specific set of measures that responds to the summit initiatives step by step, paragraph by paragraph.

Senator SARBANES. Why don't you let the committee have sort of a memo on that, on how you are projecting out? That would be helpful.

Let me ask about Hungary. I just want to get a little better sense of what the environmental center is going to be all about in Budapest.

Mr. BERNTHAL. That is what we are really there discussing right now, Mr. Chairman. As I indicated, one of my deputies is literally this week in Budapest discussing what a "regional center" on environmental matters for Eastern Europe—what form that would take. The United States has made a commitment I believe of $1 million, if I remember correctly, to help establish that center.

Senator SARBANES. Five I think, $5 million.

Mr. BERNTHAL. It's $5 million. Sorry.

Senator SARBANES. Is he meeting with representatives from the region? In other words, other countries have sent representatives there for this meeting?

Mr. BERNTHAL. The attendees I believe are just the United States and Hungary, but let me see. I think this is just bilateral, Senator, at this point. It is going to be established in Budapest. Among other things, they are looking for a site I believe. So, we are at the very early stages here.

Senator SARBANES. But is it going to be a United States-Hungarian center, or is it going to be a regional center that will include the other Eastern European countries?

Mr. BERNTHAL. As I understand it, this is a matter between the United States and Hungary at this stage. This is a bilateral effort, but it will involve—it is designed to address regional environmental concerns. So, other countries certainly will be pulled in at some point.

Senator SARBANES. Well, is there going to be a governing council for the center?

Mr. BERNTHAL. We do not know yet. These are issues that are being taken up this week.

Senator SARBANES. Would that council include representatives from the other Eastern European countries, or would it be just Americans and Hungarians, or just Hungarians?

Mr. BERNTHAL. We fully expect, whether it is a governing council or some other body, that other countries will be involved in this center. Absolutely.

Senator SARBANES. Have other countries indicated they are interested?

Mr. BERNTHAL. We expect that—we hope that all of the Eastern European——

Senator SARBANES. Has anyone indicated they are interested? I guess the Hungarians have. Is that correct?

Mr. BERNTHAL. Let's put it this way. We have had no negative response yet, but we certainly would expect and hope that Czechoslovakia and Poland and Bulgaria, perhaps the other countries——

Senator SARBANES. What does it mean to say "you have no negative response"?

Mr. BERNTHAL. Well, we have had no one that has said they will not participate.

Senator SARBANES. Do you send letters to people asking them to serve on a dinner committee and tell them if you do not hear back from them, you are going to put their names on the committee? Or do you expect to hear back from them if they are going to be on the committee?

Mr. BERNTHAL. At this point, Senator, the President has committed to establishing this center. He has committed to assist in establishing it. We are now sitting down with the host government, with the Hungarians, and trying to work out exactly some of the details that we are describing here.

Senator SARBANES. Will involvement extend beyond Poland and Hungary to less reform-minded countries, or is the process of reform a requirement for participation in this regional environmental center?

Mr. BERNTHAL. We have set no requirements yet for participation to my knowledge. We would hope that on the environmental issues especially we would get wide response because they are regional issues. But there have been no conditions set on participation to my knowledge.

Senator SARBANES. The Romanians are tearing up their environment, for example. How do you handle that? Have we figured that out yet?

Mr. BERNTHAL. We do not know whether they will be participants, but we would hope that their interest in the environment would make them willing participants.

Senator SARBANES. When the President announced it, what did you all have in mind? As I probe you with questions, there does not seem to be any there there. And I am trying to figure out what was the concept that you had when it was put out.

Mr. BERNTHAL. The concept is that, as we all know, the environment has become an increasingly important issue in Eastern Europe. They are looking to the West for assistance in a number of environmentally related areas because we in the United States have a somewhat longer history than a number of countries in clean water, clean air initiatives. The President genuinely felt that

we had things that we could offer to them. We all recognize that not only is it important for Eastern Europe, but that the environment of Eastern Europe affects Western Europe.

I might mention that yesterday, for example, Minister Toepfer from the Federal Republic of Germany pointed out that they had found in Germany that for addressing their own environmental problems, in some cases they get more return for the mark spent in Eastern European countries than they would if they actually spent the money in West Germany.

Senator SARBANES. Are the Western European countries going to participate in this center?

Mr. BERNTHAL. The participation is certainly open, and we invite participation from everyone. These are subjects, though, that after all, we need to discuss with the Hungarians before I make representations as to what the final structure of the center might be. They are the host country and we right now are discussing with them exactly where we will locate the center, what its mission will be. They will have an equal role certainly in defining the mission.

Senator SARBANES. Well, your deputy has gone there, as I understand it from your statement. Is that right?

Mr. BERNTHAL. That's right.

Senator SARBANES. What do we have in mind, or is it wide open and we are waiting for the Hungarians to fill it in? Do we have any concept——

Mr. BERNTHAL. We have in mind, among other things, that we will provide expertise, that we will try and assist, to the extent we can and to the extent they want us to, in clean air, clean water, and other problems that they are addressing with the considerable expertise that we have in our country, including the technical background.

Senator SARBANES. I can understand that if it is a United States-Hungarian center. I have no trouble with the concepts. But this is being put forward as a regional center. And I have not yet gotten any sense first, of the ways in which you would broaden it beyond Hungary and, second, whatever those ways might be, how you would propose to achieve them or bring them about. What is our concept of this regional center? What is the region?

Mr. BERNTHAL. The region is Eastern Europe generally. But first we start with the Hungarians. We sit down with them since they are the host government. I am sure you understand that this isn't just going to be a U.S. effort in Budapest. It is very much the Hungarian Government that has to play a lead role here as well. And so, I cannot lay out for you right now exactly what their desires might be and what agreements we might reach with them.

There are other areas, of course, in which we are cooperating with Eastern Europe independently of this environmental center. As you know, the President's initiative expressed at Mainz also included some rather specific programs in Poland. We are talking here about one element of other initiatives that we expect to take in Eastern Europe. The environmental center is one that we are beginning with Hungary.

Senator SARBANES. Well, we would like to hear from you when your aide returns so we have some sense of what that center is

going to amount to. I know the President made a big thing of it when he was there.

Mr. BERNTHAL. I cannot give you the decisions from the meeting yet because, of course, we are still in discussions with them.

Senator SARBANES. Do you expect the Western Europeans to help pay for the center as well?

Mr. BERNTHAL. Right now the U.S. Government has committed $5 million. We have not solicited assistance from other governments to my knowledge.

Senator SARBANES. And is that $5 million a year or what?

Mr. BERNTHAL. That was a $5 million initial grant I believe.

Senator SARBANES. How much will the center cost? Do we have any idea?

Mr. BERNTHAL. I cannot tell you that because I do not know exactly what the Hungarian contribution would be at this point. I do not know the details. We are going to know a lot more next week, and if I could suggest, we would be happy to let you know the outcome of those meetings.

Senator SARBANES. All right. Why don't we leave it at that?

Thank you very much. It's a pleasure to have you here.

The committee stands in adjournment.

Mr. Bernthal, I want to ask one question before you go, if I could. Was this proposal for a regional center in Hungary something that had been worked up through your bureau?

Mr. BERNTHAL. The proposal had widespread vetting, Mr. Chairman. It was vetted in the State Department. It was worked on by us, of course, but not only by us.

Senator SARBANES. Which proposal are we talking about now?

Mr. BERNTHAL. The Hungarian regional center.

Senator SARBANES. Over what period of time?

Mr. BERNTHAL. I would guess it considerably preceded the President's trip to the NATO summit. I do not know exactly what the timeframe was but, of course, it began before then.

Senator SARBANES. Well, now, was it just the idea that was worked, or did it have more meat and even bones to it than we have been able to discern this morning?

Mr. BERNTHAL. Well, the idea of a regional center, environmental or otherwise, is not so novel I must say. A regional environmental center in Hungary is novel perhaps. But we have this sort of center in other countries on other subjects, these kinds of centers in other countries on other subjects.

Senator SARBANES. What is an example of that?

Mr. BERNTHAL. We are talking about one—let me see if I can get some—I can get more information. AID, for example, I know has this sort of center. I do not have a list of the kind of thing we do, but we get suggestions from time to time.

Senator SARBANES. In the preparations for the G–7 summit, who was the person who was effectively the promoter or the point person for the regional center?

Mr. BERNTHAL. I am not sure I can answer that question.

Senator SARBANES. It was not your Bureau I take it.

Mr. BERNTHAL. There was no individual in my Bureau from which this idea sprang; no. In fact, this was an interagency process

that was carefully discussed before the President went to the NATO summit.

Senator SARBANES. So, this idea did not come out of the State Department.

Mr. BERNTHAL. I am afraid I would have difficulty telling you exactly where the genesis of the idea was.

Senator SARBANES. Except it was not in your shop.

Mr. BERNTHAL. There is nobody to my knowledge in my Bureau that suggested the idea, but I could be wrong. As I say, this was an interagency process with a number of ideas that were considered.

Senator SARBANES. Surely if someone in your shop suggested it, you would have known about it.

Mr. BERNTHAL. Probably so; yes, sir.

Senator SARBANES. Since you did not, I think it is reasonable to assume it was not out of your shop. Is that correct?

Mr. BERNTHAL. Well, there are discussions interagency, of course, informally on many things, and when I first heard of this, of course, it had already become rather formal discussions interagency——

Senator SARBANES. I think one of your aides seems to have some information on that point.

Mr. BERNTHAL. Well, let me just say I am reminded and, of course, I was aware that the broad concept, not the detailed suggestions such as environmental center in Hungary, such as the detailed programs in Poland—the broad concept, however, of an Eastern European environmental initiative was one that, indeed, was discussed and worked on in the State Department, and then others were pulled into this process. But I am not talking now about the specifics of an environmental center of what we are proposing to do in the city of Krakow and the detailed programs.

Senator SARBANES. That was discussed in your Bureau?

Mr. BERNTHAL. The broad concept of an initiative in Eastern Europe on environmental matters certainly was discussed in our Bureau. The other things came along later as specific steps that would be taken.

Senator SARBANES. And they came along before the NATO summit or after?

Mr. BERNTHAL. That's right, before the NATO summit.

Senator SARBANES. The broad concept?

Mr. BERNTHAL. Yes. Basically these initiatives grew out of the President's proposal in the Mainz speech for an Eastern European environmental initiative.

Senator SARBANES. Before the President made that speech, did he have these specifics in front of him or was that just enunciating the general concept?

Mr. BERNTHAL. Mr. Chairman, I do not know all the details of what the President had before him when. Let me see.

My instincts are that these were general concepts before the Mainz speech and that the details of exactly what specificactions would be taken then followed on.

Senator SARBANES. All right. Thank you very much, sir.

[Whereupon, at 12:13 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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